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 2013, PURSUANT TO IND. CODE § 8-1-2-42(g).	)	CAUSE NO. 43629 GCA 27 APPROVED: AUG 28 2013

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Jeffery Earl, Administrative Law Judge

On June 25, 2013, in accordance with Ind. Code § 8-1-2-42, Northern Indiana Public Service Company ("Petitioner" or "NIPSCO") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of September, October and November 2013. On July 22, 2013, Petitioner prefiled the direct testimony and revised schedules of Katherine A. Cherven, Manager of Compliance in the Rates and Regulatory Finance Department; Ronald G. Plantz, Controller; and Douglas J. Burton, Director – Resource Planning in Energy Supply and Trading Department supporting the proposed GCA factor. On July 30, 2013, in conformance with the statute and the Commission's July 16, 2013 Docket Entry granting the Indiana Office of Utility Consumer Counselor's ("OUCC's") Motion for Extension of Time to File Its Case-in-Chief, the OUCC filed the statistical report and direct testimony 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 given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, the Commission held an Evidentiary Hearing in this Cause at 9:30 a.m. on August 15, 2013 in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of 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 and the evidence presented, the Commission finds:

1. **Statutory Notice and Commission Jurisdiction**. Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as 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 organized and existing under the laws of the State of Indiana. Petitioner's principal office is located at 801 East 86th Avenue, Merrillville, Indiana. Petitioner renders natural 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 and owns, operates, manages, and controls plant and equipment for the distribution and furnishing of such service.

3. **Source of Natural Gas.** Ind. 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 September 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. After allocations to the Choice customer suppliers, 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 approximately 379,000 Dth per day, including 17,000 Dth of winter only Crossroads capacity NIPSCO anticipates having, but currently does not have under contract.

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 approximately 31,131,000 Dth, with maximum daily withdrawal capability of approximately 588,000 Dth to meet winter peaks, after allocations to the Choice customer suppliers.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that considers market conditions and the price of natural gas on both current and forward-looking bases. 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, we find the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Ind. 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 the proposed gas costs include transport rates that have been filed by NIPSCO's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in Petitioner earning a return in excess of the return authorized by the last Commission Order in which Petitioner's basic rates and charges were approved. Petitioner's current basic rates and charges were approved on November 4, 2010 in Cause No. 43894. The Commission 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. Petitioner's evidence indicates that for the twelve (12) months ending June 30, 2013, Petitioner's actual net operating income was $52,252,917. Therefore, based on the evidence of record, we find that Petitioner is earning a return in excess of that authorized in its last rate case.

Because Petitioner has earned an excessive return, Ind. Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded to customers through the variance in this Cause. A refund is only appropriate if the sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period, as defined by Ind. Code § 8-1-2-42.3(a), is greater than zero. Based on the evidence of record, we find the sum of the differentials during the relevant period is less than zero, and therefore, it is not appropriate to require a refund of any of the amount over earned in this Cause.

6. **Estimation of Purchased Gas Costs.** Ind. 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 corresponding actual costs. The evidence presented indicates that Petitioner's estimating techniques during the reconciliation period of March through May 2013 ("Reconciliation Period") yielded an over-estimated weighted average error of 3.05%. Based on Petitioner's historical accuracy in estimating the cost of gas, we find that Petitioner's estimating techniques are sound, and Petitioner's prospective average estimate of gas costs is reasonable.

7. **Reconciliations.**

A. **Variances**. Ind. Code § 8-1-2-42(g)(3)(D) also requires that Petitioner reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the commodity and bad debt variance for the Reconciliation Period is an over-collection of $20,396,657 from 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 $3,944,805.

The commodity and bad debt variance from prior recovery periods applicable to the current recovery period is an under-collection of $6,126,243. Combining this amount with the Reconciliation Period variance results in a total under-collection of $2,181,438 to be applied in this GCA as an increase in the estimated net cost of gas.

The evidence presented in this proceeding establishes that the demand variance for the Reconciliation Period is an over-collection of $9,704,499 from 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 $1,880,761.

The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $1,843,599. Combining this amount with the Reconciliation Period variance results in a total over-collection of $37,162 to be applied to this GCA as a decrease in the estimated net cost of gas.

B. **Refunds**. Petitioner received $218,844 in new refunds during the Reconciliation Period and has no refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded customers in this GCA is $42,630 as reflected in Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for September 2013 is $6,808,920, for October 2013 is $15,793,120 and for November 2013 is $30,621,626. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $7,148,466 for September 2013, $16,385,984 for October 2013 and $31,790,862 for November 2013. After dividing those amounts by the appropriate estimated sales, adding 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 Dth

Rate Class	September 2013	October 2013	November 2013
Residential	$4.125	$4.510	$4.792
General Service	$4.505	$4.930	$5.282

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factor of $4.125/Dth for September 2013, $4.510/Dth for October 2013, and $4.792/Dth for November 2013. The table below shows the gas costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. Moreover, the table compares the proposed gas costs to what a residential customer paid most recently (June 2013 - $4.654/Dth) and a year ago (September 2012 - $2.848/Dth, October 2012 - $3.614/Dth, and November 2012 - $4.739/Dth). The table solely reflects costs approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

Month	Proposed Gas Costs @10 Dth	Current		Year Ago	
		Gas Costs @10 Dth)	Difference from Current	Gas Costs @10 Dth	Difference from Year Ago
September 2013	$41.25	$46.54	($5.29)	$28.48	$12.77
October 2013	$45.10	$46.54	($1.44)	$36.14	$8.96
November 2013	$47.92	$46.54	$1.38	$47.39	$0.53

10. **Interim Rates.** We are unable to determine whether Petitioner will earn an excess return while these GCA factors are in effect. Accordingly, the rates approved in this Order are interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **Monthly Flex Mechanism.** This Commission 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 monthly flex mechanism to adjust the GCA factor 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 later 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 (higher or lower) 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 Paragraph No. 8, is approved, subject to refund in accordance with Paragraph 10.

2. Prior to implementing the GCA factors approved above or any future flexed factor, Petitioner shall file with the Commission under this Cause the applicable rate schedules for the factor.

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

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

APPROVED: AUG 28 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