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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 DECEMBER 2014 AND JANUARY AND FEBRUARY, 2015, PURSUANT TO IND. CODE § 8-1-2-42(g).	)	**CAUSE NO. 43629 GCA 32** **APPROVED:** NOV 25 2014

<u>ORDER OF THE COMMISSION</u>

Presiding Officers:
Jeffery A. Earl, Administrative Law Judge

On September 25, 2014, 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 December 2014 and January and February 2015. On October 21, 2014, in support of the proposed GCA factors, Petitioner prefiled the direct testimony and revised schedules of the following:

- Katherine A. Cherven, Manager of Compliance in NIPSCO's Rates and Regulatory Finance Department;
- Thomas P. Harmon, Manager, Financial Reporting at NiSource Corporate Services; and
- Patrick J. Pluard, Director of Portfolio Optimization in NIPSCO's Energy Supply and Trading Department.

On October 27, 2014, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of the following:

- Pamela Sue Sargent Haase, CPA, Partner at London Witte Group LLC; and
- Jerome D. Mierzwa, Principal and Vice President of Exeter Associates, Inc.

On October 28, 2014, Petitioner submitted corrections to the direct testimony of Ms. Cherven.

The Commission held an Evidentiary Hearing in this Cause at 9:30 a.m. on November 10, 2014, in Hearing Room 224, 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. Pluard testified that Petitioner manages a balanced and fully diversified gas supply portfolio that includes 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. 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 and in producing regions.

Mr. Pluard further testified that during the three-month recovery period beginning December 1, 2014, Petitioner will purchase supply under firm arrangements on both a term and spot-market basis. To achieve diversity of supply, 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 ("Vector"), Crossroads Pipeline ("Crossroads") and Northern Border Pipeline ("Northern Border"). 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 401,000 Dth per day.

With regard to storage, Mr. Pluard 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 31,500,000

Dth, with maximum daily withdrawal capability of approximately 595,000 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 presented, 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 that 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 ("NOI") 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 NOI of $4,602,071 associated with merger of the former Kokomo Gas and Fuel Company and Northern Indiana Fuel & Light Co. and into NIPSCO. Thus NIPSCO's combined authorized NOI 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 12 months ending September 30, 2014, Petitioner's actual net operating income was $55,666,899. 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 a return in excess of that authorized, 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 June through August 2014 ("Reconciliation Period") yielded an over-estimated weighted average error of 2.02%. 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 $4,413,144 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 $2,287,975.

The commodity and bad debt variance from prior recover periods applicable to the current recovery period is an under-collection of $34,821,806. Combining this amount with the Reconciliation Period commodity variance to be included in this GCA results in a total under-collection of $32,533,831 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 under-collection of $11,024,581 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 $5,722,980.

The demand variance from prior recover periods applicable to the current recovery period is an over-collection of $12,383,085. Combining this amount with the Reconciliation Period demand variance to be included in this GCA results in a total over-collection of $6,660,105, to be applied to this GCA as a decrease in the estimated net cost of gas.

B. Refunds. Petitioner received no new refunds during the Reconciliation Period. Petitioner has $412,971 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $412,971 in refunds to be applied in this GCA as a decrease in the net cost of gas as reflected on Schedule 12A.

8. Resulting Gas Cost Adjustment Factor. The estimated net cost of gas to be recovered for December 2014 is $59,349,918, for January 2015 is $68,815,787 and for February 2015 is $57,236,772. Adjusting these totals for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $67,873,801 for December 2014, $78,365,931 for January 2015 and $64,623,500 for February 2015. After dividing these 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	December 2014	January 2015	February 2015
Residential	$6.134	$6.243	$6.101
General Service	$6.388	$6.438	$6.263

9. Effects on Residential Customers. Petitioner requests authority to approve the GCA factor of $6.134/Dth for December 2014, $6.243/Dth for January 2015, and $6.101/Dth for February 2015. The table below shows the gas costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (September 2014 - $4.702/Dth) and a year ago (December 2013 - $4.932/Dth, January 2014 - $5.285/Dth, and February 2014 - $5.449/Dth). The table 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
December 2014	$61.34	$47.02	$14.32	$49.32	$12.02
January 2015	$62.43	$47.02	$15.41	$52.85	$9.58
February 2015	$61.01	$47.02	$13.99	$54.49	$6.52

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.

STEPHAN, MAYS-MEDLEY, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: NOV 25 2014

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