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 2015, PURSUANT TO IND. CODE § 8-1-2-42(g).	))))))	**CAUSE NO. 43629 GCA 33** **APPROVED:** FEB 25 2015

ORDER OF THE COMMISSION

Presiding Officers:
Jeffery A. Earl, Administrative Law Judge

On December 23, 2014, in accordance with Ind. Code § 8-1-2-42, Northern Indiana Public Service Company ("NIPSCO") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the months of March, April, and May 2015. On January 16, 2015, NIPSCO prefiled the direct testimony and exhibits of the following witnesses:

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

On January 20, 2015, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of the following witnesses:

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

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on February 9, 2015, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. NIPSCO and the OUCC were present and participated. No members of the general public appeared or sought to testify at the hearing.

Based on 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. NIPSCO 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 NIPSCO's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over NIPSCO and the subject matter of this Cause.

2. **NIPSCO's Characteristics.** NIPSCO is a corporation organized and existing under the laws of the State of Indiana. NIPSCO's principal office is located at 801 East 86th Avenue, Merrillville, Indiana. NIPSCO 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 NIPSCO 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 said that NIPSCO 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 NIPSCO through multiple, firm, transportation arrangements with several different interstate gas pipelines, providing access to multiple supply basins. NIPSCO also has several firm, contractual storage services and on-system storage capability to meet its gas customers' requirements. The storage portfolio is diversified through a variety of storage service types in multiple locations in the market area and in producing regions.

Mr. Pluard said that during the three-month recovery period beginning March 1, 2015, NIPSCO will purchase supply under firm arrangements on both a term and spot-market basis. To achieve diversity of supply, NIPSCO has contracted with several pipelines, permitting access to multiple supply basins. NIPSCO has 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"), and Crossroads Pipeline ("Crossroads"). After allocations to the Choice customer suppliers, the firm, long-haul transportation contracts with Natural, Panhandle, Trunkline, Crossroads, and ANR have an aggregate maximum daily quantity during the peak season of approximately 406,000 Dth per day.

With regard to storage, Mr. Pluard said 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 peak working storage capability of approximately 31,700,000 Dth, with maximum daily withdrawal capability of approximately 599,000 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 NIPSCO 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 NIPSCO'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 presented shows 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 NIPSCO earning a return in excess of the return authorized by the last Commission Order in which NIPSCO's basic rates and charges were approved. NIPSCO's current basic rates and charges were approved on November 4, 2010, in Cause No. 43894. The Commission authorized NIPSCO to earn a net operating income ("NOI") of $39,841,895. In the May 31, 2011 Order in Consolidated Cause Nos. 43941, 43942, and 43943 ("Merger Order"), the Commission authorized an incremental annual NOI of $4,602,071 associated with the merger of Kokomo Gas and Fuel Company and Northern Indiana Fuel & Light Co. 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. NIPSCO's evidence indicates that for the 12 months ending December 31, 2014, NIPSCO's actual net operating income was $62,477,705. Therefore, we find that NIPSCO is earning a return in excess of that authorized in its last rate case.

Because NIPSCO's return exceeds the amount 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, we find that 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 NIPSCO'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

NIPSCO's estimating techniques during the reconciliation period of September through November 2014 ("Reconciliation Period") yielded an under-estimated weighted average error of 6.25%. Based on NIPSCO's historical accuracy in estimating the cost of gas, we find that NIPSCO's estimating techniques are sound and that NIPSCO'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 NIPSCO 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 under-collection of $38,120,371. 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 $8,788,136.

The commodity and bad debt variance from prior recovery periods applicable to the current recovery period is an under-collection of $7,699,366. Combining this amount with the Reconciliation Period commodity variance to be included in this GCA results in a total under-collection of $16,487,502 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 $6,064,937. 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 $1,400,990.

The demand variance from prior recovery periods applicable to the current recovery period is an over-collection of $4,369,743. Combining this amount with the Reconciliation Period demand variance to be included in this GCA results in a total over-collection of $2,968,753 to be applied to this GCA as a decrease in the estimated net cost of gas.

B. Refunds. NIPSCO received no new refunds during the Reconciliation Period. NIPSCO has $184,036 in refunds from prior periods applicable to the current recovery period. Therefore, NIPSCO has $184,036 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 March 2015 is $39,713,658, for April 2015 is $14,544,358, and for May 2015 is $6,215,615. Adjusting these totals for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $46,968,088 for March 2015, $18,496,164 for April 2015, and $8,344,092 for May 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, NIPSCO's recommended GCA factors are:

Estimated GCA per Dth

Rate Class	March 2015	April 2015	May 2015
Residential	$5.783	$4.297	$3.854
General Service	$5.965	$4.466	$4.139

9. Effects on Residential Customers. NIPSCO requests authority to approve the GCA factor of $5.783/Dth for March 2015, $4.297/Dth for April 2015, and $3.854/Dth for May 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 (December 2014 - $6.281/Dth) and a year ago (March 2014 - $5.795/Dth, April 2014 - $5.169/Dth, and May 2014 - $5.361/Dth). The table reflects costs approved through the GCA process. It does not include NIPSCO'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
March 2015	$57.83	$62.81	($4.98)	$57.95	($0.12)
April 2015	$42.97	$62.81	($19.84)	$51.69	($8.72)
May 2015	$38.54	$62.81	($24.27)	$53.61	($15.07)

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

11. Monthly Flex Mechanism. The Commission indicated in prior Orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. NIPSCO's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, NIPSCO 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 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 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 a 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, NIPSCO 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, AND ZIEGNER CONCUR; WEBER ABSENT:

APPROVED: FEB 25 2015

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