ORIGINAL

ARW

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 2016, PURSUANT TO IND. CODE § 8-1-2-42(g) AND AUTHORITY TO ENTER INTO ONE OR MORE TRANSACTIONS FOR THE LONG-TERM PURCHASE OF GAS SUPPLY ASSUMING CONTINUATION OF FAVORABLE MARKET PRICES.	)	CAUSE NO. 43629 GCA 39 APPROVED: AUG 31 2016

ORDER OF THE COMMISSION

Presiding Officer:
Loraine L. Seyfried, Chief Administrative Law Judge

On June 27, 2016, in accordance with Ind. Code § 8-1-2-42, Northern Indiana Public Service Company ("NIPSCO" or "Petitioner") filed its Verified Petition for approval of gas cost adjustment ("GCA") factors with attached Schedules to be applicable for gas service rendered during the months of September, October and November 2016. On that same date, NIPSCO prefiled the direct testimony and exhibits of the following:

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

On July 27, 2016, 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 August 3, 2016, NIPSCO filed its Notice of Intent Not to Pre-File Rebuttal Testimony, indicating its agreement to certain recommendations made by Ms. Haase.

The Commission held an Evidentiary Hearing in this Cause at 11:00 a.m. on August 11, 2016, 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 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. 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. **Petitioner'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. NIPSCO diversifies its supply by acquiring gas from a number of suppliers from multiple supply areas through a competitive bidding process and the utilization of a variety of pricing structures. These gas supplies are delivered to NIPSCO pursuant to firm transportation contracts with seven interstate gas pipelines, providing access to many different supply basins. NIPSCO also has several 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 both the market area and producing regions.

Mr. Pluard testified NIPSCO has firm transportation contracts with Natural Gas Pipeline Company ("Natural"), Panhandle Eastern Pipe Line Company ("Panhandle"), Trunkline Gas Company ("Trunkline"), ANR Pipeline Company ("ANR"), Vector Pipeline ("Vector"), Crossroads Pipeline ("Crossroads") and DTE Gas Company ("DTE"), which give NIPSCO access to a diverse range of supply regions. After allocations to the Choice customer suppliers, the long-term, firm, transportation contracts with Natural, Panhandle, Trunkline, ANR, Vector, Crossroads and DTE have an aggregate maximum daily quantity during the peak season of approximately 440,000 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 peak working storage capability of approximately 32,300,000 Dth, with maximum daily withdrawal capability of approximately 607,000 Dth to meet winter peaks, after allocations to the Choice customer suppliers. Mr. Mierzwa testified that the OUCC's audit "revealed that NIPSCO reasonably administered the assignment of capacity to Choice 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 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 of record 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. In the January 28, 2015 Order in Cause No. 44403 TDSIC 1 regarding the Transmission, Distribution, and Storage System Improvement Charge ("TDSIC"), the Commission authorized the inclusion of net operating income realized as a result of the TDSIC tracker. For the 12 months ended March 31, 2016, the TDSIC operating income was $228,377, resulting in a total authorized NOI of $44,672,343.

The NOI 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 March 31, 2016, NIPSCO's actual NOI was $44,320,848. Therefore, we find that NIPSCO is not earning a return in excess of that authorized in its last rate case, and further we find that the requirement of this statutory provision has been fulfilled.

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 a comparison of the variance to the incremental cost of gas on Schedule 13 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Petitioner's 12-month rolling average comparison was 2.30% for the period ending May 31, 2016. We find that NIPSCO's estimating techniques are sound and NIPSCO's prospective average estimate of gas costs is reasonable.

7. **Reconciliations.** 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 months of March 2016 through May 2016 ("Reconciliation Period") is an over-collection of $16,528,226 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 $3,115,844.

The commodity and bad debt variance from prior recovery periods applicable to the current recovery period is an under-collection of $3,458,573. Combining this amount with the Reconciliation Period commodity and bad debt variance to be included in this GCA results in a total under-collection of $342,729 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 $404,099 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 $85,465.

The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $814,929. Combining this amount with the Reconciliation Period demand variance to be included in this GCA results in a total under-collection of $900,394 to be applied to this GCA as an increase in the estimated net cost of gas.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for September 2016 is $3,503,903, for October 2016 is $11,119,627, and for November 2016 is $24,269,021. Adjusting these totals for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $3,690,376 for September 2016, $11,504,122 for October 2016, and $24,941,176 for November 2016. 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	**September 2016**	**October 2016**	**November 2016**
Residential	$4.719	$3.805	$3.790
General Service	$4.241	$3.863	$4.061

9. **Effects on Residential Customers.** Based on the GCA factors shown above, 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 (June 2016 - $3.669/Dth) and a year ago (September 2015-$4.461/Dth, October 2015 - $3.246/Dth, and November 2016 - $3.183/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	Gas Costs (10 Dth)	Difference
September 2016	$47.19	$36.69	$10.50	$44.61	$2.58
October 2016	$38.05	$36.69	$1.36	$32.46	$5.59
November 2016	$37.90	$36.69	$1.21	$31.83	$6.07

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.** 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 mechanism applies to the mix of volumes between spot, fixed, and storage gas purchases as long as the total volumes remain unchanged from the utility's total monthly volume of gas estimated in this GCA proceeding. The flex mechanism is to be filed no later than three business 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 ten business days prior to the beginning of said calendar month. Changes in the market price included in the flex mechanism are limited to a maximum adjustment (higher or lower) of $1.00 from the initial market price in this GCA proceeding. Finally, NIPSCO shall file all material that supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

12. **Proposed Long-Term Contract(s).** Petitioner's gas portfolio includes securing seasonal physical supply of natural gas as well as an approved financial volatility mitigation program. NIPSCO has determined that its current approach would be enhanced by securing a percentage of its gas costs for a term beyond the current seasonal structure. After analyzing current market conditions, NIPSCO has proposed to enter into one or more contracts to secure a portion of its gas supply at a not to exceed price and seeks Commission approval to do so. OUCC witness Haase testified that the OUCC did not object to the proposed purchases, as long as Petitioner presented any such long-term fixed contracts separately on Schedule 3 and Schedule 8 of its future GCA filings. NIPSCO indicated its agreement with the OUCC's request in its Notice of Intent Not to Pre-File Rebuttal Testimony.

The Commission has reviewed Petitioner's request to enter into one or more transactions for the long-term purchase of a portion of its gas supply needs. While we agree that the proposed long-term purchases are another reasonable component to mitigate price volatility within NIPSCO's gas supply portfolio, the reasonableness of any specific long-term purchase will be determined during the GCA in which cost recovery for the purchase occurs based on the facts that existed at the time Petitioner made the gas purchase decision. Any such purchases should be identified separately on Schedule 3 and Schedule 8 in future GCA filings.

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, HUSTON, AND WEBER CONCUR; ZIEGNER ABSENT:

APPROVED: AUG 31 2016

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

Mary M. Becerra

Mary M. Becerra
Secretary of the Commission