ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF A HEDGING PROGRAM IN SUPPORT OF ITS ELECTRIC UTILITY SERVICE CONSISTENT WITH THE SETTLEMENT AGREEMENT APPROVED BY THE INDIANA UTILITY REGULATORY COMMISSION IN CAUSE NO. 38706 FAC 80 S1 AND RECOVERY OF CERTAIN COSTS ASSOCIATED WITH THAT POLICY PURSUANT TO IND. CODE § 8-1-2-42(d)	**CAUSE NO. 43849** **APPROVED:** JUL 13 2011

BY THE COMMISSION:
David E. Ziegner, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On January 22, 2010 Northern Indiana Public Service Company ("Petitioner," "Company," or "NIPSCO") filed its Petition for approval of a hedging program in support of its electric utility service consistent with the Settlement Agreement approved by the Indiana Utility Regulatory Commission ("Commission") in Cause No. 38706 FAC 80 S1 and recovery of certain costs associated with that policy pursuant to Ind. Code § 8-1-2-42(d).

On February 25, 2010, NIPSCO Industrial Group ("Industrial Group" or "IG") and the City of Hammond, Indiana ("Hammond") (collectively referred to herein as "Intervenors") filed Petitions to Intervene, both of which were granted on the record.

Pursuant to notice given as provided by law, proof of which was incorporated into the record, a Prehearing Conference and Preliminary Hearing was held on March 3, 2010 and a Prehearing Conference Order was issued on March 10, 2010. On May 14, 2010, the parties filed a joint motion to suspend the filing dates approved in the March 10, 2010 Prehearing Conference Order. A second Prehearing Conference was held on June 30, 2010 and a second Prehearing Conference Order was issued on August 11, 2010, which established a revised procedural schedule.

On April 16, 2010, NIPSCO filed its prepared testimony and exhibits constituting its case-in-chief. On October 25, 2010, NIPSCO filed revised prepared testimony and exhibits. On November 24, 2010, Intervenors and the OUCC filed prefiled testimony and exhibits.

On February 1, 2011, the Commission conducted an attorneys' conference via telephone to discuss further scheduling in this Cause. The parties indicated that they would report to the Commission the status of ongoing settlement discussions. Pursuant to various motions for modification of the procedural schedule, on March 24, 2011, NIPSCO filed rebuttal testimony and exhibits which, in essence, replaced its case-in-chief. On April 4, 2011, the Industrial Group and the OUCC each filed responsive testimony to NIPSCO's rebuttal testimony.

Pursuant to notice given as provided by law, proof of which was incorporated into the record, an evidentiary hearing was held in this matter on April 18, 2011, at 9:30 a.m., in Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, NIPSCO presented its rebuttal testimony, which was admitted into evidence without objection. The OUCC and Intervenors also participated in the hearing. The OUCC and Industrial Group both presented their respective testimonies, which were admitted into evidence without objection. No member of the public appeared or participated at the hearing.

The Commission, having considered the evidence and being duly advised, now finds that:

1. Notice and Jurisdiction. Due, legal and timely notices of the public hearings in this Cause were given and published by the Commission as required by law. Petitioner is a public utility within the meaning of the Public Service Commission Act, as amended, Ind. Code § 8-1-2 and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. This Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner's Characteristics. Petitioner is a public utility with its principal place of business located at 801 East 86th Avenue, Merrillville, Indiana. Petitioner is authorized by the Commission to provide electric and gas utility service to the public in northern Indiana and owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery and furnishing of such services to the public.

3. Relief Requested. As modified in its rebuttal case, Petitioner seeks approval of a hedging program applicable to its electric utility service in accordance with the Stipulation and Settlement Agreement by and among NIPSCO, the OUCC, Industrial Group and Hammond approved by the Commission in its Order dated November 4, 2009 in Cause No. 38706 FAC 80 S1 (the "Agreement") and for recovery of costs incurred in the implementation of that plan through NIPSCO's quarterly fuel adjustment clause ("FAC") proceedings.

Paragraph 6.d. of the Agreement provided for the circulation of a draft hedging policy to the parties, and contemplated the formal initiation of a docketed proceeding seeking approval of NIPSCO's hedging policy to be applicable to its fuel and/or power purchases in support of its electric utility service. NIPSCO circulated a draft hedging policy to the parties in accordance with the Agreement, and the purpose of this proceeding is to initiate a formal proceeding for approval of that policy by the Commission.

4. Evidence Presented.

A. NIPSCO Witness Stanley. Karl E. Stanley, Vice President, Commercial Operations for NIPSCO, Kokomo Gas & Fuel Company ("Kokomo") and Northern Indiana Fuel & Light Company ("NIFL"), filed rebuttal testimony to present and support NIPSCO's revised electric hedging plan (hereinafter referred to as the "Hedging Plan") and the framework for submitting hedging plans to the Commission and NIPSCO's stakeholders in the future. Mr. Stanley testified the objectives of the Hedging Plan will be to reduce the relative movement in the FAC factor from one period to the next and to limit upside price exposure.

Mr. Stanley stated that after considering comments from the other parties in their prefiled testimony, NIPSCO met on multiple occasions with representatives of the OUCC and the Industrial Group to craft a hedging framework that addresses the interests of all parties involved. He noted that the process for developing the proposed Hedging Plan involved numerous iterations in an effort to make sure that NIPSCO had full agreement from the other parties on the development and design of a hedging plan.

Mr. Stanley testified the Hedging Plan differs from the hedging plan that was filed previously in terms of the methodology that was used to determine NIPSCO's exposure to market price volatility and the plans that will be implemented to mitigate that exposure. He stated that as a result of discussions among the parties, the Hedging Plan now assumes that all of the NIPSCO coal-fired generation facilities supply energy at a fixed price. He stated that because a majority of NIPSCO's coal contracts are between 3 and 5 years in length, and because coal pricing has historically been less volatile than natural gas pricing and the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO" or "MISO") market price of power, it was determined that any coal-fired generation used to meet the power supply needs of NIPSCO customers could be classified as a fixed price resource. He stated that any remaining resources that would likely be needed to meet the power supply needs of NIPSCO customers, however, would be classified as floating in price and thus would be considered when developing the hedge plan. Mr. Stanley explained that this methodological change required NIPSCO to undertake certain modeling changes. He stated that as a result of the discussions among the parties, the proposed Hedging Plan now addresses NIPSCO's exposure to both natural gas and electricity price volatility associated with supplying electricity to native load customers.

Mr. Stanley explained how the Hedging Plan was constructed. He stated that NIPSCO determined the monthly volume of megawatt hours ("MWhs") to be hedged by starting with the total number of on-peak MWhs that would be needed to serve NIPSCO's internal load over a specified period. The expected number of on-peak MWhs for each month was determined through NIPSCO's demand forecasting process. This demand forecast was determined based upon historical usage, estimated economic growth rates, and normalized weather. He further explained that once the expected number of on-peak MWhs for each calendar month was determined, the PROMOD model was run to determine what resources would be used to meet this expected demand. Mr. Stanley stated that due to the lower variable cost and cycling limitations associated with NIPSCO's coal-fired generation supply, the PROMOD model would ordinarily apply these resources first before dispatching other NIPSCO generation, and in conjunction with spot energy purchases from the MISO energy markets when economic, to meet the supply needs of NIPSCO customers. He stated that if any additional resources would be required, the model would determine how much of this additional supply should be provided by the natural gas-fired Sugar Creek Generating Station ("Sugar Creek") and how many MWhs should be purchased from the MISO spot energy market. He stated the model would determine this allocation between producing at Sugar Creek and purchasing from the MISO spot energy market, depending on the estimated price for each resource at each point in the future. Mr. Stanley sponsored an exhibit that demonstrates the resource allocation to meet on-peak load.

Mr. Stanley testified modifications were made to the PROMOD model to refine the resource allocation process. He explained the PROMOD model was run with forecasted hourly spot market prices for electric energy in the MISO spot market floored at a price just above the variable cost of NIPSCO's available coal-fired generation to remove forecasted purchases from the MISO spot energy market that would be made in lieu of producing energy at NIPSCO's available coal-fired generation facilities when it is economical to do so. He stated these economic spot market energy purchases were removed from PROMOD modeling because they are made at a price below the cost of production of NIPSCO's coal-fired fleet and, as such, the price exposure for these spot market energy purchases is already capped at the production cost of NIPSCO's coal-fired generation and do not need to be further hedged. He stated NIPSCO's remaining on-peak energy requirements were modeled as being supplied either from Sugar Creek or by purchasing energy from the MISO spot energy market. Mr. Stanley testified these are the energy requirements for which NIPSCO is subject to market price volatility, and these are the energy requirements that NIPSCO addressed in the Hedging Plan. He stated this methodological change in developing the Hedging Plan represents a significant improvement compared with the original filing by simplifying the approach, and was a direct result of the collaborative efforts of the Industrial Group, the OUCC and NIPSCO.

Mr. Stanley described how NIPSCO will address the market price volatility associated with power generated at Sugar Creek or with purchases made in the MISO spot energy market. He stated NIPSCO is proposing in the Hedging Plan to hedge 50% of the projected power volumes that would be supplied by either Sugar Creek or by purchasing energy from MISO. He testified the Industrial Group, the OUCC and NIPSCO agreed that hedging 50% of NIPSCO's exposure to market price volatility, after accounting for the inherent value of the hedge associated with NIPSCO's coal-fired generation, represents an appropriate figure for NIPSCO's initial Hedging Plan. Mr. Stanley stated the level of hedging that results from hedging 50% of NIPSCO's expected power volumes associated with Sugar Creek and MISO purchases will be monitored and evaluated in future hedging plans.

Mr. Stanley explained NIPSCO's proposal for hedging 50% of the power volumes associated with projected Sugar Creek generation and MISO purchases. He stated the Hedging Plan will be composed of three types of swap/futures contracts. The first contract type will be used to hedge the on-peak MWhs exposure that relates to Sugar Creek, a combined cycle gas turbine plant that uses natural gas to generate power. He stated the modeled volumes of power from Sugar Creek were converted to dekatherms by multiplying the number of MWhs for each calendar month by the heat rate of the Sugar Creek plant, which is approximately 7.5 dekatherms per MWh. He explained that once the number of dekatherms per calendar month was determined, this number was divided by 10,000 because there are 10,000 dekatherms in each natural gas futures contract, which provided the number of natural gas futures contracts to be purchased for each calendar month of delivery. He stated these contracts settle financially by comparing the purchase price to the settlement price, netting the difference, and then multiplying this dollar difference by 10,000 to get the dollar amount per contract as opposed to physically so they will not have any impact on the physical purchase and delivery of natural gas that is required to run the plant. He explained that dollars change hands without any physical flow of the commodity itself.

Mr. Stanley testified the second type of contract that will be used in the Hedging Plan will be Midwest ISO Cinergy Hub Peak Calendar Month/Real Time LMP Swap Future contracts. He testified these contracts allow NIPSCO to establish a hedge against electricity price volatility and allows NIPSCO to purchase power at a fixed price for all on-peak hours of a given month, and then settle the price against the average on-peak hourly Real Time LMP price for that same calendar month. He stated these contracts settle financially as opposed to physically so there will be no impact to MISO supply including the dispatch of NIPSCO's generation facilities and NIPSCO's wholesale sales and purchases of electricity. He explained that if the fixed price is below the average real time LMP price, NIPSCO will receive payment and if the fixed price is above the average real time LMP price, NIPSCO will make a payment.

Mr. Stanley testified that while the Midwest ISO Cinergy Hub Peak Calendar Month/Real Time LMP Swap Future is the most liquid and actively traded contract type out into the future, it does not perfectly match up with the type of exposure that NIPSCO is attempting to mitigate. He stated that since NIPSCO purchases its power from MISO on a day ahead basis, in order to match this hedge exposure with the most closely linked derivative product, NIPSCO will convert Midwest ISO Cinergy Hub Peak Calendar Month/Real Time LMP Swap Futures contracts into Midwest ISO Cinergy Hub Peak Calendar Month/Day Ahead LMP Swap Futures contracts. He explained this converted swap will ultimately settle the original fixed price purchase against the Day Ahead MISO prices. He stated this type of swap also settles financially as opposed to physically so there will be no impact to MISO supply including the dispatch of NIPSCO's generation facilities and NIPSCO's wholesale sales and purchases of electricity.

Mr. Stanley testified NIPSCO is proposing to pass through all hedging gains and seeks recovery of all prudently incurred hedging losses through its FAC filings. He stated the hedges under the Hedging Plan are being solely made to address native load fuel cost price exposure and that the hedges will not change the economic dispatch of NIPSCO's generation facilities or NIPSCO's wholesale electricity sales and purchases. Therefore, NIPSCO will pass all hedging gains and seek recovery of prudently incurred hedging losses through its FAC.

Mr. Stanley sponsored exhibits setting forth the schedule for implementing the hedging transactions. He explained the schedule is an integral part of the Hedging Plan, and resulted from collaborative discussions among the parties. Mr. Stanley stated the natural gas futures contracts will be purchased on a dollar cost averaging basis up to the second to last month before the month of delivery. He explained that the reason that these purchases will conclude on the second to last month prior to delivery is because monthly natural gas futures contracts settle three business days prior to the month of delivery. Thus, if the natural gas futures contracts were purchased immediately prior to the month of delivery, the purchase would effectively be made at the same time that the contract was settling. Mr. Stanley stated the Midwest ISO Cinergy Hub Peak Calendar Month/Real Time LMP Swap Futures contracts will be purchased on a dollar cost averaging basis up through and including the month prior to the delivery month. He stated that immediately before the month of delivery, all the Midwest ISO Cinergy Hub Peak Calendar Month/Real Time LMP Swap Futures will be converted to a Midwest ISO Cinergy Hub Peak Calendar Month/Day Ahead LMP Swap Future. He explained that the schedule is broken up into the different types of futures/swaps contract to demonstrate when and what number of contracts would be purchased.

Mr. Stanley testified the schedule will be adjusted so that near months will be adequately hedged. He testified the intent of the Hedging Plan is to start hedging 24 months in advance of delivery to take full advantage of dollar cost averaging. He explained that because this initial

Hedging Plan starts with the June 2011 month of delivery, hedges had to be accelerated to fit the limited time frame for many of the delivery months.

Mr. Stanley testified NIPSCO intends to purchase the swaps/futures contracts on or around the third to last business day of the month. He explained that while this purchase practice takes market timing out of the purchase decision, NIPSCO will take into account market conditions and circumstances known at that time and will use its best judgment in purchasing these contracts.

Mr. Stanley sponsored an analysis prepared to illustrate the possible impact the Hedging Plan would have on overall purchased power costs. He explained that the analysis lists what additional power supply costs could be incurred if market prices moved up by 20% from where market pricing was as of close of business on February 18, 2011. He explained that in this example, there could be an additional $7,000,000 of power supply costs (inclusive of CCGT generation and MISO power purchases) if market prices rose by 20% for each month of the planned period. He stated the plan period covers the January 2011 to December 2012 period. Mr. Stanley explained the analysis also includes the effect the Hedging Plan would have on these additional power supply costs. He explained that if these hedges were in place and the market was stressed upward by 20% for each month in the plan period, the additional power supply costs would be roughly 50% ($3,500,000) of what they would be without the Hedging Plan in place; if prices were to move down by 20%, however, power supply costs could have been reduced by $7,000,000 through the plan period if no hedge plan had been implemented. Mr. Stanley testified with the Hedging Plan in place, power supply costs would have been reduced by only 50% ($3,500,000) of what they would have been without the Hedging Plan in place. Mr. Stanley explained the analysis demonstrates how a hedge plan can reduce volatility in power supply costs. He explained that while possible savings may be forgone when prices fall, the Hedging Plan reduces additional costs that may have been incurred when prices rise.

Mr. Stanley testified market conditions are dynamic and the analysis is only intended to show the relative impact of the program assuming that market conditions remain the same that they are today. Nevertheless, the analysis provides an indication on what sort of impact this program may have in the future.

Mr. Stanley explained the framework NIPSCO is proposing for the submission of future electric hedging plans. He testified that after substantial collaboration and feedback from the other parties, there has been agreement on the approach and methodology in developing this initial Hedging Plan. He stated that after this initial plan is implemented, NIPSCO proposes that each May it will formalize an updated energy supply plan for the following two years (for example, July 2011 to June 2013) that follows the same general methodology that was used in developing the initial Hedging Plan. Each respective delivery month will be hedged over an 18-month window. He testified this updated energy supply plan will be submitted to the Commission and NIPSCO's stakeholders by May 31 of each year. He stated that under the proposed framework, stakeholders would have until July 15 to provide feedback on the proposed hedging plan so that purchases under the plan could commence by July 28 of that same year. Mr. Stanley sponsored a summary of this proposed framework for future submissions and the proposed general hedging plan methodology.

Mr. Stanley testified NIPSCO will regularly review the specifics of the methodology used to develop its hedging plans and propose changes to those specifics when warranted. He stated that each year, at least two months before its annual May 31 filing of its updated energy supply plan, NIPSCO will meet with the OUCC and NIPSCO's interested retail customer stakeholders to discuss whether the specifics of the hedging plan methodology warrant adjustment. In addition, NIPSCO will include in its annual May 31 filing detailed testimony regarding why adjustments to the specifics of the hedging plan methodology are or are not warranted. He stated this will include detailed testimony on any specific adjustments that NIPSCO proposes to make to the Hedging Plan.

B. OUCC Witness Etheridge. Dwight Etheridge, Principal and Vice President with Exeter Associates, Inc. filed responsive testimony on behalf of the OUCC supporting NIPSCO's Hedging Plan. Mr. Etheridge testified the Hedging Plan will serve its intended purpose to reduce the relative movement in the FAC from one period to the next and to limit upside price exposure by requiring NIPSCO to undertake both natural gas and electric hedging transactions designed to mitigate load customers' exposure to price volatility. He stated the specifics of the Hedging Plan, including recognition of the inherent hedge value of NIPSCO's coal-fired generation, the magnitude of price volatility exposure to be hedged, the general time table for completing hedging transactions, and the framework for filing future hedging plans all resulted from a collaborative process. Mr. Etheridge felt this collaborative process proved beneficial to the development of the Hedging Plan. He stated that because this is NIPSCO's initial foray into electric hedging, the parties recognized the importance of revising the specifics of the Hedging Plan in the future and NIPSCO has agreed to do so annually.

Mr. Etheridge explained the portion of NIPSCO's coal-fired generation that is not expected to be dispatched in a future period and is available to be dispatched if it proves economic to do so provides NIPSCO with a hedge against future electricity price increases. He stated that in those situations, NIPSCO would anticipate purchasing electricity in the wholesale market in lieu of increasing production from its coal-fired generation. However, if electricity prices increase, it may become economic for NIPSCO to increase the output of its coal-fired generation to avoid paying the higher price of electricity from the wholesale market. Mr. Etheridge testified this is the inherent hedge value of NIPSCO's coal-fired generation, and NIPSCO's revised Hedging Plan explicitly recognizes this value.

Mr. Etheridge testified through consensus, NIPSCO, the Industrial Group, and the OUCC have agreed that NIPSCO should hedge 50 percent of its projected exposure to on-peak price volatility associated with either generating power at its Sugar Creek combined cycle plant or purchasing electricity in the wholesale market. He stated the parties agreed that this was a reasonable level of hedging for NIPSCO's initial Hedging Plan. He explained that it will cause NIPSCO to undertake a material level of hedging transactions, which was not the case with NIPSCO's original proposal, but it will also leave some price volatility exposure unhedged, allowing customers to benefit if prices fall, recognizing the risk of higher prices if wholesale electricity prices increase. Mr. Etheridge testified the level of hedging transactions proposed in the Hedging Plan will be reviewed annually in NIPSCO's proposed annual hedging plan filings.

Mr. Etheridge testified NIPSCO is proposing to use dollar cost averaging to spread out its hedging transactions over multiple months, thereby reducing its exposure to uncertain benefits or costs associated with making large volumes of hedging transactions at a single point in time, and at the prevailing market prices. Mr. Etheridge testified this proposed general framework for spreading hedging transactions out over multiple months is reasonable. He explained that NIPSCO is also proposing to complete hedging transactions scheduled to be made in any given month by entering into these transactions generally toward the end of the month, within a window of flexibility of a week or more and that this too is a reasonable proposal because it gives NIPSCO the flexibility to exercise good judgment and adapt to administrative circumstances when selecting a specific day on which it will enter into a hedging transaction.

Mr. Etheridge testified the Hedging Plan sets forth a proposed level of future hedging transactions and the general timing of those hedging transactions, both of which reflect current projections of future market conditions and the economics of operating NIPSCO's company-owned generation. He stated changes in NIPSCO's projected on-peak energy requirements and forecasts of fuel and electricity prices will cause NIPSCO's forecasts of its exposure to price volatility to change and that NIPSCO may need to adjust the volume of its proposed hedging transactions upward or downward to account for changing market conditions between its proposed annual hedging plan filings. He stated this in turn would change the proposed schedule of hedging transactions that would be consistent with NIPSCO's proposed dollar cost averaging approach to scheduling hedging transactions. Therefore, NIPSCO will be required to exercise its judgment as it implements its proposed Hedging Plan in the face of changing market conditions, and will be expected to do so prudently given the information available to it at the time of its hedging decisions.

Mr. Etheridge testified the proposed framework for annually filing updated hedging plans is reasonable and gives the Commission regularly scheduled updates on NIPSCO's hedging activities, and the costs and benefits of those activities, and will allow interested parties to weigh in on whether changes to NIPSCO's hedging plans may be warranted prospectively.

Mr. Etheridge recommended that the Commission approve NIPSCO's revised proposed Hedging Plan as being a reasonable plan for mitigating native load customer's exposure to price volatility, and direct NIPSCO to implement the Hedging Plan as proposed, recognizing that it is incumbent upon NIPSCO to adapt to changing market conditions, and to use its best judgment in selecting the magnitude and timing of hedging transactions when it enters into those transactions.

C. Industrial Group Witness Dauphinais. James R. Dauphinais, consultant with Brubaker & Associates, Inc. filed responsive testimony on behalf of the Industrial Group supporting NIPSCO's Hedging Plan. Mr. Dauphinais provided a summary of his concerns with NIPSCO's original hedge plan as follows:

- NIPSCO's proposed threshold for acquiring financial swaps was unlikely to ever result in NIPSCO's procurement of any financial swaps and failed to fully recognize NIPSCO's native load customer fuel cost exposure to upward swings in natural gas prices.

- NIPSCO's proposed threshold approach appeared to "bet" on spot prices being lower on average than near-term forward prices without any supporting analysis.

- NIPSCO's proposal to pass on all the credits and debits associated with its settlement of acquired financial swaps through its FAC should have been qualified such that only the credits and debits associated with the settlement of prudently acquired financial swaps are passed through its FAC.

- NIPSCO's proposal to make actual financial swaps at specific pre-determined times should have been designed in a manner that minimizes the likelihood of supplier manipulation of prices and not remove NIPSCO's responsibility to exercise its judgment to consider the reasonableness of the price of the financial swap offers it receives before entering into the purchase of those financial swaps.

- NIPSCO should have provided an analysis with its annual hedge plan filing of the impact to retail customers through the FAC of price swings in the spot natural gas and electric energy markets regardless of whether NIPSCO procures any financial swaps to hedge its native load fuel cost.

- NIPSCO's proposed trigger for reviewing its filed hedge plan was unclear and should have required that NIPSCO communicate with all interested parties and make a filing with the Commission even if NIPSCO decides no changes to the hedge plan are necessary.

- The hedging guidelines agreed to in Cause No. 38706 FAC71 S1 should remain in force as they would still be applicable.

Mr. Dauphinais testified NIPSCO's revised Hedging Plan framework and the Hedging Plan reasonably addresses the concerns he had with NIPSCO's original hedging plan. He explained that (1) the Hedging Plan will result in some level of procurement of financial swaps and recognizes NIPSCO's native load fuel cost exposure to upward swings in natural gas prices; (2) the Hedging Plan does not "bet" on spot prices being lower on average than near-term forward prices and spreads risk between spot prices and near-term forward prices; (3) the Hedging Plan clarified that NIPSCO will only seek recovery of prudently incurred hedging losses through its FAC; (4) NIPSCO has now designated the specific pre-determined times when it will purchase financial swaps in a manner that reduces the likelihood of supplier manipulation of prices and has clarified it will take into account market conditions and circumstances known at the time the purchases are to be made and use its best judgment in purchasing the financial contracts; (5) NIPSCO has provided an analysis that illustrates the impact of spot market price swings on its FAC with and without the proposed financial swap purchases; (6) the revised Hedging Plan framework and the Hedging Plan do not utilize a threshold for hedging and includes provisions that require NIPSCO to annually address whether or not specific provisions of its Hedging Plan should be revised; and (7) the revised Hedging Plan framework and Hedging Plan are generally consistent with the hedging guidelines agreed to in Cause No. 38706 FAC 71 S1 but they do not replace those guidelines; however, to the extent there is a conflict between the revised Hedging Plan framework (or the Hedging Plan) and the guidelines, the revised Hedging Plan framework and Hedging Plan should be controlling.

Mr. Dauphinais recommended the Commission (1) clarify that the Commission will not be providing any advance approval of NIPSCO's natural gas, electricity and financial instrument purchases by accepting NIPSCO annual Hedging Plan filings; (2) accept NIPSCO's revised Hedging Plan framework as detailed in Mr. Stanley's rebuttal testimony; and (3) accept NIPSCO's Hedging Plan as detailed in Mr. Stanley's rebuttal testimony.

The Industrial Group acknowledged NIPSCO's ultimate willingness to understand and address the serious concerns the Industrial Group and OUCC had with the original hedge plan. Mr. Dauphinais testified the resulting revised Hedging Plan is consistent with the Industrial Group's objective of ensuring NIPSCO is developing a well thought out and analyzed plan to manage, on behalf of retail customers the near-term upward price risk associated with NIPSCO's native load fuel cost.

5. **<u>Commission Discussion and Findings</u>.** The Commission notes at the outset that this proceeding was initiated by NIPSCO pursuant to the settlement in Cause No. 38706 FAC 80 S1, approved by the Commission on November 4, 2009. Specifically, paragraph 6.d of the Agreement provided that NIPSCO would work with the parties to develop a hedging policy ultimately subject to Commission approval, whether through settlement or in a contested proceeding. It is evident from the evidence of record that the parties worked cooperatively to arrive at the revised Hedging Plan framework sponsored by Mr. Stanley as well as the Hedging Plan implementing that framework for the initial year.

We have consistently endorsed the use of appropriate risk management techniques for gas utilities to mitigate exposure to gas market price volatility. *See, e.g., Indiana Utilities Corp.*, Cause No. 37357 GCA 61 at 2 (IURC January 25, 2006).[1] We find that the mitigation of volatility in fuel procurement is consistent with the provisions of Ind. Code § 8-1-2-42(d), and that implementation of a process to evaluate the risk of fuel price volatility and mitigate such risk through a comprehensive and well-developed hedging plan, is a reasonable step in furtherance of the acquisition of fuel so as to provide electricity to customers at the lowest fuel cost reasonably possible.

It is clear from the record that NIPSCO's electric operations face different exposure to price volatility than do gas utilities based largely on the long-term coal contracts that underlie much of the fuel supply for NIPSCO's baseload generation. As Mr. Stanley explained, long term coal contracts act as a natural hedge against volatility, so swings in spot fuel prices therefore present a proportionally smaller risk to customers of electric utilities than do swings in gas prices for gas utility customers. As a consequence, there is agreement among NIPSCO, the IG and the OUCC that a process to evaluate the hedging of 50% of NIPSCO's projected Midwest ISO purchases plus the gas supply required for 50% of the projected dispatch from the Sugar Creek CCGT generating unit is an appropriate approach to the remaining exposure to fuel cost volatility not already covered by NIPSCO's coal contracts. We agree with the parties that the approach advocated by NIPSCO and supported by the parties identifies a portion of NIPSCO's portfolio for which a potential hedge is appropriate that represents a reasonable balance between the mitigation of volatility and the exposure to transactional expenses.

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[1] "The Commission has indicated repeatedly, since before the winter of 2000-2001, that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Those efforts include making fixed-price purchases and securing volumes of storage gas. The purpose of making fixed-price purchases and securing storage gas is to mitigate against price spikes, including price spikes caused by unexpected events such as those caused by the 2005 hurricane season."

NIPSCO proposes to execute hedges using fixed price natural gas contracts and Midwest ISO Cinergy Hub Peak Calendar Month/Real Time LMP Swap Future contracts, and Midwest ISO Cinergy Hub Peak Calendar Month/Day Ahead LMP Swap Futures and presented evidence of how such transactions would be implemented for the two-year period beginning in June of 2011. The evidence supports the conclusion that NIPSCO's proposed approach is reasonable because it effectively matches the transactions to the timeframe and the risk for which mitigation is sought. We also agree that the use of dollar cost averaging techniques is an appropriate means to further reduce volatility by flattening the exposure to fluctuations in the cost of the contracts over time.

Given that all hedging transactions will be made to address native load fuel cost price exposure, we find NIPSCO may request recovery of both transactional costs as well as gains and prudently incurred losses from hedging transactions through NIPSCO's quarterly FAC, and to the extent deemed prudent, those costs will be recoverable through NIPSCO's quarterly FAC. Approval of NIPSCO's annual Hedging Plan does not mean the Commission is providing an approval of the purchases made pursuant to the plan. Rather, any recovery of the hedging transaction costs and losses will be subject to review for prudency as are all of a utility's fuel costs to be recovered through the FAC process. Any such prudency review will be made based upon our analysis of the facts and circumstances as they existed at the time the transactions at issue were entered into, and upon a finding that the transactions were prudent, the transactional costs and associated gains and losses shall be recoverable through the quarterly FAC.

NIPSCO proposed to submit a revised energy supply plan each May that would follow the same general methodology that was used in developing the initial Hedging Plan, and Mr. Stanley sponsored a summary of this proposed framework for future submissions and the proposed general hedging plan methodology. The IG and the OUCC agreed that NIPSCO's proposal is workable and appropriate to provide the Commission with updated information, and NIPSCO's proposal would also provide stakeholders an opportunity to comment on the plan proposed for the prospective two year period. We also find that NIPSCO's proposal to provide detailed analysis to support its annual Hedging Plans, even if no change is being made to the plan, is reasonable.

We also agree that the revised Hedging Plan framework and Hedging Plan are generally consistent with the hedging guidelines in Cause No. 38706 FAC 71 S1. Although the Hedging Plan framework and the Hedging Plan do not replace the FAC 71 S1 guidelines, we find that the Hedging Plan framework and Hedging Plan shall control if any conflict arises between the guidelines approved in FAC 71 S1 and the approved Hedging Plan framework and Hedging Plan approved in this Cause.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION THAT:

1. NIPSCO's proposed initial Hedging Plan is hereby approved. For subsequent years, NIPSCO shall file its updated energy supply plan covering the succeeding two year period on or before May 31 of each year beginning in May of 2012.

2. NIPSCO is authorized to request recovery of the transactional costs associated with hedging its fuel supply in accordance with its Hedging Plan as a fuel cost through its quarterly FAC. Such transactional costs should be separately identified in the schedules supporting each such filing, and upon a finding of prudency shall be recoverable through NIPSCO's quarterly FAC.

3. NIPSCO is authorized to request its hedging gains and losses resulting from transactions made in accordance with NIPSCO's Hedging Plan for inclusion as credits and/or charges to the fuel costs recovered through NIPSCO's quarterly FAC. Such credits and/or charges should be separately identified in the schedules supporting each such filing, and upon a finding of prudency shall be recoverable through NIPSCO's quarterly FAC.

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

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

APPROVED: JUL 13 2011

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