ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF AN UPDATED ENERGY SUPPLY PLAN IN COMPLIANCE WITH THE INDIANA UTILITY REGULATORY COMMISSION'S ORDER DATED JULY 13, 2011 IN CAUSE NO. 43849, INCLUDING RECOVERY OF CERTAIN COSTS ASSOCIATED WITH THAT POLICY PURSUANT TO IND. CODE § 8-1-2-42(d), CONSISTENT WITH THE APPROVALS GRANTED TO PETITIONER IN CAUSE NO. 43849.	)	CAUSE NO. 44205 S1 APPROVED: JUL 03 2013

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On March 28, 2013 Northern Indiana Public Service Company ("Petitioner," "Company" or "NIPSCO") filed its Petition for approval of an updated energy supply plan in compliance with the Indiana Utility Regulatory Commission's ("Commission") Order dated July 13, 2011 in Cause No. 43849 ("43849 Order"), as modified by the Order dated September 5, 2012 in Cause No. 44205 ("44205 Order") (collectively referred to as the "Hedging Orders"). The updated energy supply plan includes recovery of certain costs associated with that policy pursuant to Ind. Code § 8-1-2-42(d), consistent with the approvals granted to Petitioner in Cause No. 43849. NIPSCO also filed its prepared testimony and exhibits constituting its case-in-chief on March 28, 2012. On April 29, 2013, NIPSCO Industrial Group filed its Petition to Intervene, which was subsequently granted.

In our 44205 Order, we approved the following procedural schedule:

> Each year, at least two months before its annual March 31 filing of its updated energy supply plan, NIPSCO will meet with the [Indiana Office of Utility Consumer Counselor ("OUCC")] and NIPSCO's interested retail customer stakeholders to discuss whether the specifics of the hedging plan methodology warrant adjustment.
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> Each year on or before March 31, NIPSCO shall file under Cause Number 44205-S"X" its updated energy supply plan along with testimony explaining why or why not any changes to the methodology or hedging plan are warranted.
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> The OUCC and Intervenors shall file objections or comments (if any) under the subdocket no later than 45 calendar days (unless extended by the Presiding

Officers) after NIPSCO files its updated energy supply plan and supporting testimony ("Stakeholder Objections").

If any Stakeholder Objections are filed, NIPSCO shall file its Reply to Stakeholder Objections no later than seven calendar days after the date Stakeholder Objections were due (unless extended by the Presiding Officers).

Petitioner shall file its proposed order within 10 days of the date Stakeholder Objections were due.

If Stakeholder Objections are timely filed, the Commission shall convene an evidentiary hearing to allow the parties to present their respective evidence and cross-examine the witnesses.

If no Stakeholder Objections are filed, the Commission may issue an Order on NIPSCO's request for approval of the updated energy supply plan without a hearing, given that the prudency of any costs incurred as a result of a subsequent hedging plan will be addressed in the FAC process.

No Stakeholder Objections were filed, and Petitioner filed its proposed order on May 23, 2013.

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 ch. 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. Pursuant to Ind. Code § 8-1-2-42(d), the Commission has the authority to review whether an electric generating utility utilizes fuel procurement practices that result in the lowest fuel cost reasonably possible. Thus, the 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. **Background and Relief Requested.** In our 43849 Order, we (1) approved NIPSCO's initial Hedging Plan ("Initial Hedging Plan"), (2) authorized NIPSCO 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 fuel adjustment clause, (3) authorized NIPSCO to request its hedging gains and losses resulting from transactions made in accordance with its Hedging Plan for inclusion as credits and/or charges to the fuel costs recovered through its quarterly fuel adjustment clause, and (4) ordered NIPSCO to file its updated energy supply plan

covering the succeeding two year period on or before May 31 of each year beginning in May 2012.

In our 44205 Order, we (1) approved NIPSCO's updated energy supply plan covering the succeeding two year period (July 2012 through June 2014) (the "2012 Hedging Plan"), (2) authorized NIPSCO to request recovery of the transactional costs associated with hedging its fuel supply in accordance with its 2012 Hedging Plan as a fuel cost through its quarterly fuel adjustment clause, (3) authorized NIPSCO to request its hedging gains and losses resulting from transactions made in accordance with its 2012 Hedging Plan for inclusion as credits and/or charges to the fuel costs recovered through its quarterly fuel adjustment clause, (4) ordered NIPSCO to file its updated energy supply plan covering the succeeding two year period on or before March 31 of each year; and (5) approved a process with respect to future annual updates to the energy supply plan.

In compliance with the Hedging Orders, NIPSCO requests Commission approval of its updated energy supply plan covering the succeeding two year period (July 2013 through June 2015) (the "2013 Hedging Plan").

4. Evidence Presented. Daniel T. Williamson, Executive Director of Energy Supply and Trading for NIPSCO, filed testimony to present and support NIPSCO's 2013 Hedging Plan consistent with the framework and process approved by the Hedging Orders.

Mr. Williamson testified that in accordance with the process approved by the Hedging Orders, NIPSCO reached out to the OUCC and the NIPSCO Industrial Group to discuss the draft electric hedging plan prior to its filing at the end of March and the 2013 Hedging Plan incorporates the input and addresses the comments from its stakeholders.

Mr. Williamson explained the objectives of the 2013 Hedging Plan are to reduce the relative movement in the Fuel Adjustment Clause ("FAC") factor from one period to the next and to limit upside price exposure.

Mr. Williamson explained that the Initial Hedging Plan assumed that all of the coal-fired generation facilities within the NIPSCO asset portfolio were fixed in price. He stated that since a majority of NIPSCO's coal contracts are between 3 and 5 years in length, and since coal pricing has historically been less volatile than natural gas pricing and the Midcontinent Independent Transmission System Operator, Inc. ("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. Mr. Williamson 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. He stated the 2013 Hedging Plan also addresses NIPSCO's exposure to both natural gas and electricity price volatility associated with supplying electricity to native load customers.

Mr. Williamson explained how the 2013 Hedging Plan is constructed. He stated that NIPSCO determines 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, excluding off-system sales. The expected number of on-peak MWhs for each month is determined through NIPSCO's demand forecasting process based upon historical usage, estimated economic growth rates and normalized weather. Once the expected number of on-peak MWhs for each calendar month is determined, the PROMOD model is run to determine what resources would be used to meet this expected demand.

Mr. Williamson explained that modifications were made to the PROMOD model to refine the resource allocation process. He stated that the PROMOD model is 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. This is done 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 that 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. 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. Mr. Williamson testified NIPSCO's remaining on-peak energy requirements were modeled as being supplied either from NIPSCO's Sugar Creek combined cycle gas turbine ("CCGT") generating station ("Sugar Creek") or by purchasing energy from the MISO spot energy market and these are the energy requirements for which NIPSCO is subject to market price volatility

Mr. Williamson testified NIPSCO followed the 2012 Hedging Plan approved in the 44205 Order through December 2012. He stated that as the hedge plan covering the July 2013 – June 2015 period was under development in January 2013, NIPSCO determined that based on the latest model runs for Sugar Creek, fewer contracts would be needed in certain months than forecast under the 2012 Hedging Plan approved in the 44205 Order. Mr. Williamson indicated that based on that information, continuing to follow the approved plan for the months of January through April would have resulted in more gas contracts than desired in certain months. He stated that given the new information, it was appropriate for NIPSCO to re-adjust the remaining hedge schedule for January 2013 – April 2013 to target the new natural gas hedge volume estimates for Sugar Creek. He noted that this was communicated to the OUCC and the NIPSCO Industrial Group during a call on January 25, 2013.

Mr. Williamson explained how NIPSCO addresses the market price volatility associated with energy requirements it anticipates will be met either by power generated at Sugar Creek or with purchases made in the MISO spot energy market. He testified that consistent with the methodology approved in the 43849 Order, NIPSCO is proposing in the first year of the 2013 Hedging Plan to hedge market price volatility associated with 50% of the projected power volumes that would be supplied by either Sugar Creek or by purchases made in the MISO spot energy market. However, in the second year of the plan Mr. Williamson testified that NIPSCO is proposing to hedge market price volatility at 35% of the projected power volumes that would be supplied by Sugar Creek. He stated market price volatility associated with the projected power volumes supplied by purchases made in the MISO spot energy market would remain at 50% for year 2 of the plan.

Mr. Williamson explained that at the time the Initial Hedging Plan was developed, CCGTs such as Sugar Creek were being utilized primarily as peaking generating units. Because natural gas prices have declined over the past few years, CCGTs now also compete at the margin with coal-fired generation. He stated that a CCGT like Sugar Creek, which would become a unit sitting on the margin with coal generation, was not contemplated at the time of the Initial Hedging Plan and makes forecasting further out more challenging. He stated that for the July 2013 through June 2015 period, Sugar Creek is expected to remain on the margin with coal units. In that environment, it only takes small changes in price to affect whether or not the plan would call for more or less gas to be hedged. As such, NIPSCO believes it is prudent to reduce the percentage of gas contracts to hedge in the second year of the plan so as to manage this risk and not end up with more contracts than desired. He stated that while NIPSCO proposes to reduce the Sugar Creek volumes hedged in Year 2, there will still be an opportunity to readjust, if necessary, as that period becomes the first year of the following year's new plan. He testified that NIPSCO will continue to monitor, evaluate and make recommendations as to the appropriateness of the hedging strategy.

Mr. Williamson testified the 2013 Hedging Plan is comprised of two types of swap/futures contracts. The first type of futures contract (approved by the 43849 Order) will be used to hedge the on-peak MWhs exposure that relates to Sugar Creek, a CCGT plant that uses natural gas to generate power. He stated the modeled volumes of power from Sugar Creek are 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. Once the number of dekatherms per calendar month is determined, this number is divided by 10,000 (the number of dekatherms in each natural gas futures contract) to arrive at the number of natural gas futures contracts to be purchased for each calendar month of delivery. Mr. Williamson indicated these contracts settle financially 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 Sugar Creek plant. He noted that a natural gas futures contract settles 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. Dollars change hands without any physical flow of the commodity itself.

Mr. Williamson testified the second type of futures contract will be to hedge electric price volatility for the MISO power purchases. NIPSCO purchases its power from MISO on a Day Ahead basis. In order to match the electric price volatility exposure with the most closely linked derivative product, NIPSCO will continue to utilize MISO Indiana Hub Day-Ahead Peak Calendar-Month Futures to hedge the MISO power purchases. This type of futures contract 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. If the fixed price is below the average Day Ahead LMP price, NIPSCO will receive payment. If the fixed price is above the average Day Ahead LMP price, NIPSCO will make a payment.

Mr. Williamson testified the hedges under the 2013 Hedging Plan are being solely made to address native load fuel cost price exposure. He testified that the hedges will not change the economic dispatch of NIPSCO's generation facilities or NIPSCO's wholesale electricity sales and purchases; therefore, NIPSCO continues to propose to pass all hedging gains and seek recovery of prudently incurred hedging losses through its FAC filings.

Mr. Williamson explained NIPSCO's proposal for implementing its hedging transactions. He stated that the natural gas futures contracts and the MISO Indiana Hub Day-Ahead Peak Calendar Month Futures contracts will be purchased following specific schedules and will be purchased on a dollar cost averaging basis up to the second to last month before the month of delivery. He stated that the MISO Indiana Hub Day-Ahead Peak Calendar Month Futures contracts will be purchased on a dollar cost averaging basis up through and including the month prior to the delivery month. He stated the schedule is broken up into the different types of futures contracts to demonstrate when and what number of contracts would be purchased.

Mr. Williamson testified NIPSCO intends to purchase the futures contracts on or around the third to last business day of the month to take market timing out of the purchase decision. NIPSCO will, however, take into account market conditions and circumstances known at that time and will use its best judgment in purchasing the futures contracts.

Mr. Williamson sponsored an analysis to determine the possible impact the 2013 Hedging Plan would have on overall purchased power costs. The analysis shows an example of what additional power supply costs could be incurred if market prices move up by 20% from where market pricing was as of close of business on March 11, 2013. He stated that in this example, there could be an additional $13,878,179 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. The plan period covers the July 2013 to June 2015 period. The analysis also includes the effect the 2013 Hedging Plan could have on these additional power supply costs. 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 55% ($7,652,000) of what they would be without the hedge plan in place. However, if prices were to move downward by 20%, power supply costs could have been reduced by $13,878,179 through the plan period if no hedge plan had been implemented. With the hedge plan in place, power supply costs would have been reduced by only 55% ($7,652,000) of what they would have been without the hedge plan in place. The analysis demonstrates how a hedge plan can reduce volatility in power supply costs. While possible savings may be forgone when prices fall, the hedge plan reduces additional costs that may have been incurred when prices rise.

Mr. Williamson 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. Williamson testified NIPSCO will continue to evaluate factors that could impact the viability of the currently proposed hedging methodology and will make recommendations as appropriate.

5. **Commission Discussion and Findings.** In Cause No. 43849, we found 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.

43849 Order at 10. Accordingly, the process that we have approved under Cause No. 44205 provides NIPSCO the opportunity to update its fuel purchasing procedures in light of changes that may have occurred, or that are expected to occur, since its prior hedging plan was approved.

The evidence demonstrates that NIPSCO has complied with the procedures outlined in Cause No. 44205. Neither the OUCC nor NIPSCO Industrial Group (nor any other intervening party in the Hedging Orders) filed objections to the 2013 Hedging Plan. Based on the evidence of record, we find the proposed 2013 Hedging Plan is reasonable, consistent with the public interest and should be approved.

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

1. NIPSCO's proposed 2013 Hedging Plan is hereby approved.

2. NIPSCO is authorized to request recovery of the transactional costs associated with hedging its fuel supply in accordance with its 2013 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 2013 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, MAYS AND ZIEGNER CONCUR; BENNETT ABSENT:

APPROVED: JUL 03 2013

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

Shala M. Coe

Shala M. Coe
Acting Secretary to the Commission