ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Freeman			√
Veleta	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC FOR APPROVAL OF A GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF JUNE, JULY, AND AUGUST 2023, PURSUANT TO IND. CODE § 8-1-2-42(g)	))))))	**CAUSE NO. 43629 GCA 66** **APPROVED: MAY 30 2023**

ORDER OF THE COMMISSION

Presiding Officer:
Greg S. Loyd, Administrative Law Judge

On March 24, 2023, in accordance with Ind. Code § 8-1-2-42, Northern Indiana Public Service Company LLC ("NIPSCO" or "Petitioner") filed its Verified Petition for a gas cost adjustment ("GCA"), with attached schedules, to be applicable during the months of June, July, and August 2023. Petitioner further requests approval of an amendment to the gas cost incentive mechanism ("GCIM"). Also on March 24, 2023, NIPSCO prefiled the direct testimony and exhibits of Andrew S. Campbell, Director of Portfolio Planning & Origination for NIPSCO, and Susan Kimmet, Senior Regulatory Analyst for NiSource. On March 30, 2023, NIPSCO filed a revision to Mr. Campbell's testimony. NIPSCO also filed a correction to Mr. Campbell's testimony on May 8, 2023.

On April 24, 2023, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the direct testimony and exhibits of Mark H. Grosskopf, Senior Utility Analyst in the OUCC's Natural Gas Division, and Jerome D. Mierzwa, a Principal and Vice President of Exeter Associates, Inc.

The Indiana Utility Regulatory Commission ("Commission") held an evidentiary hearing in this Cause at 9:30 a.m. on May 9, 2023, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. NIPSCO and the OUCC, by counsel, participated in the evidentiary hearing, during which their respective testimony and exhibits were admitted without objection.

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 limited liability company organized and existing under Indiana law. Petitioner's principal office is located at 801 East 86th Avenue, Merrillville, Indiana. NIPSCO renders natural gas utility service to the public 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. Campbell testified 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 while utilizing a variety of pricing structures. The gas is delivered to NIPSCO pursuant to firm transportation contracts with six interstate gas pipelines, providing access to 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. Campbell testified 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"), which give NIPSCO access to diverse supply regions. After allocations to NIPSCO's suppliers participating in its Choice Program ("Choice Suppliers"), the long-term, firm, transportation contracts with Natural, Panhandle, Trunkline, ANR, Vector, and Crossroads have an aggregate maximum quantity during the peak season of approximately 720,000 Dth per day. Mr. Campbell stated the winter season is defined as the peak season, and the summer season is the off-peak season.

With regard to storage, Mr. Campbell testified NIPSCO has firm storage service contracts with Natural, Panhandle, ANR, Washington 10 Storage Corporation, and Egan Hub Partners, L.P. The contracts provide an annual peak working storage capability of approximately 30,582,000 Dth, with maximum daily withdrawal capability of approximately 534,000 Dth to meet winter peaks, after allocations to the Choice Suppliers. He provided a table detailing the storage inventory plan for the contracted storage facilities during the 12-month period beginning November 1, 2022, noting that actual storage inventory generally varies from this plan primarily due to weather and changing market conditions. Mr. Campbell stated the contracted supplies are reinforced with NIPSCO-owned underground storage (Royal Center Trenton field) with a capacity of 4,000,000 Dth and liquefied natural gas ("LNG") storage with an additional total capacity of 4,000,000 Dth. He testified Royal Center and NIPSCO's LNG facility are located within NIPSCO's gas service territory.

Mr. Campbell testified that NIPSCO conducts a request for proposal ("RFP") process twice a year to secure bids for term gas supplies for the peak season and the off-peak season. The RFP process, according to Mr. Campbell, is used to contract for firm gas supply at specified points, under known pricing methods, for a defined time, and typically, as a result of this bidding process, NIPSCO will award contracts to commodity suppliers for a significant portion of NIPSCO's projected gas supply needs. He stated NIPSCO solicits bids from current and potential trading partners on a variety of agreement structures and pricing at specific locations. A variety of different structures are combined to create a diversified portfolio, with the objective of achieving reliable, diverse supply at the lowest gas cost reasonably possible.

Mr. Campbell described the asset management arrangement ("AMA") transactions that will impact the June 2023 through August 2023 period, advising that NIPSCO entered into five AMAs for the 2023 summer season. He said there were no major changes to the Company's contractual agreements for transportation or storage service.

Mr. Campbell further explained that the allocation of transportation and storage capacity to Choice Suppliers is adjusted seasonally based on projected peak day usage for the Choice Suppliers' customers. For the upcoming season, NIPSCO will temporarily release approximately 12% of the contracted transport and storage capacity to the Choice Suppliers. He stated in April 2023, NIPSCO would recalculate the capacity to be allocated to those suppliers. Mr. Campbell stated the amount of capacity (and associated costs) flowed through the GCA will be the net of that released amount and will vary based on NIPSCO's transportation and storage contracts.

Mr. Campbell testified there are no contracts due to expire during the three-month period June through August 2023. Mr. Campbell further testified that since NIPSCO's last GCA filing, there have been no major changes in NIPSCO's contractual agreements for transportation, or storage service.

Mr. Campbell testified NIPSCO did not release any excess capacity during the months of December 2022 through February 2023. He stated NIPSCO needs a majority of the capacity to serve its system needs for the winter months and due, in part, to off-system and on-system maintenance. He testified it is important NIPSCO retain daily and monthly operational flexibility, as well as optionality, to respond to changes in system demand, pipeline operations, or market conditions. Mr. Campbell stated on and off-system constraints such as maintenance and force majeure events continue to be potential barriers to releasing capacity, with these conditions typically requiring NIPSCO to retain available capacity for system balancing. Mr. Campbell testified it can be difficult to forecast the impact an on or off-system constraint can have to flowing supplies of gas, so NIPSCO has taken a conservative position to ensure its customers continue to be provided with safe and reliable service. He stated NIPSCO will continue to identify opportunities to maximize the pipeline and storage assets' value, including capacity releases.

Mr. Campbell provided an update on the Federal Energy Regulatory Commission's ("FERC") Natural Gas Act Section 5 rate investigation ("Section 5 Investigation") with Panhandle. Campbell stated on December 16, 2022, FERC issued its Opinion and Order on Initial Decision in Docket No. RP19-78-001, which ordered Panhandle to make a compliance filing within 60 days. On February 14, 2023, Panhandle filed the required compliance filing. On February 27, 2023, three intervenors filed comments and one intervenor filed a protest to the Panhandle compliance filing. On February 27, 2023, Panhandle filed corrected compliance filing documents and pro forma rates to address one of the issues addressed in the protests/comments. On March 13, 2023, Panhandle filed an answer to the comments and protests.

Mr. Campbell stated that on January 28, 2022, ANR Pipeline Company ("ANR") filed a Section 4 Rate Case with FERC in Docket No. RP22-501-000 proposing a system-wide general increase in rates to be effective March 1, 2022. He said FERC issued an order on February 28, 2022, suspending the implementation of these rates for five months, to be effective August 1, 2022, subject to refund. He stated in Docket No. RP22-501-004, FERC issued an order to implement settlement rates on an interim basis, which went into effect on November 1, 2022. He stated that on December 5, 2022, the Chief Judge issued an Order authorizing the implementation of the Settlement Rates on an interim basis. He explained that ANR is one of seven pipelines that deliver gas to NIPSCO's service territory. He testified that on behalf of NIPSCO's GCA and Choice customers, NIPSCO intervened and will be participating in this case. He testified the parties to this case reached settlement and on December 14, 2022, ANR filed a Stipulation and Agreement of Settlement with FERC in which NIPSCO was a settling party. He said that on January 17, 2023, the Settlement Judge certified to FERC that the settlement was uncontested and that the parties await FERC ruling on the settlement. Mr. Campbell testified that on September 20, 2022, Natural Gas Pipeline Company of America LLC ("Natural"), filed a Stipulation and Agreement of Settlement lowering rates after extensive negotiations between Natural and its customers, including NIPSCO. FERC approved the settlement on October 25, 2022.

Mr. Campbell testified NIPSCO's volatility mitigation program remains consistent with the Commission's recommendations in Cause Nos. 37396 GCA 63 and 38431 GCA 51. Mr. Campbell explained that in addition to NIPSCO's gas volatility mitigation program, NIPSCO began fixing a portion of its future expected annual purchases. He stated NIPSCO chose a long-term time horizon (10-years) given the historical low prices at that time and the perceived value of "locking in" a fixed price. Mr. Campbell testified these agreements are staggered and will begin to expire in 2026 and will completely terminate in December of 2027. He stated approximately 17% of NIPSCO's annual purchases currently are fixed at a price of $3.08/Dth.

Mr. Campbell also provided an update regarding Petitioner's discretionary hedging purchases that impact the December 2022 through February 2023 reconciliation period ("Reconciliation Period"). He testified NIPSCO has made periodic discretionary hedge purchases for many winters since 2011, with the discretionary process allowing qualified hedge purchases to be made up to two years earlier than allowed by the non-discretionary hedge plan. Mr. Campbell identified NIPSCO's discretionary hedge purchases that impact the Reconciliation Period.

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, we find NIPSCO demonstrated that it has and continues to follow a policy of securing natural gas supply at the lowest gas cost reasonably possible in order to meet anticipated customer requirements. Therefore, we find the requirement of this statutory provision has been fulfilled.

4. <u>Purchased Gas Cost Rates</u>. 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 indicates that the proposed gas costs include transport rates that have been filed by NIPSCO's pipeline suppliers in accordance with FERC 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 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 July 27, 2022, in Cause No. 45621 (the "45621 Order"). In the 45621 Order, for Step 1, the Commission authorized NIPSCO to earn a net operating income ("NOI") of $141,945,409, excluding the transmission, distribution, and storage system improvement charge ("TDSIC") and federally mandated cost adjustment mechanism ("FMCA"). Consistent the Commission's Orders in Cause No. 45330 TDSIC 3 and 4, Cause Nos. 45007 FMCA 6 and 7, and 45560 FMCA 1, NIPSCO added approved TDSIC operating income of $1,496,194 and recovery of approved FMCA costs of $468,578 to its authorized NOI for the 12 months ending December 31, 2022, resulting in a total authorized NOI of $143,910,181. Petitioner's evidence indicates that for the 12 months ending December 31, 2022, NIPSCO's actual NOI was $113,542,285 (including TDSIC operating income of $1,496,194 and FMCA operating income of $468,578), which is $30,367,896 less than NIPSCO's authorized NOI of $143,910,181. We therefore find NIPSCO is not earning a return in excess of that authorized.

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 6 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 a negative 2.09% for the period ending February 2023. Based on Petitioner's historical accuracy in estimating the cost of gas, we find NIPSCO's estimating techniques are sound, and Petitioner's prospective average estimate of gas costs is reasonable.

7. **Reconciliations.**

A. **Variances.** Ind. Code § 8-1-2-42(g)(3)(D) also requires that 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 over-collection of $25,801,087 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 $1,510,143.

The commodity and bad debt variance from prior recovery periods applicable to the current recovery period is an under-collection of $2,066,654. 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 $556,511 to be applied in this GCA as an increase in the estimated net cost of gas.

The evidence presented establishes that the demand variance for the Reconciliation Period is an over-collection of $1,934,295 from Petitioner's 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 a decrease in the estimated net cost of gas is $120,633.

The demand variance from prior recovery periods applicable to the current recovery period is an over-collection of $751,356. Combining this amount with the Reconciliation Period demand variance to be included in this GCA results in a total over-collection of $871,989 to be applied to this GCA as a decrease in the estimated net cost of gas.

B. **Refunds.** Petitioner has no new refunds applicable to this GCA. Petitioner has no prior period refunds to be refunded in this GCA; therefore, the Commission finds that NIPSCO has no refunds to customers in this GCA as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for June 2023 is $2,727,150, for July 2023 is $2,490,187, and for August 2023 is $2,385,906. Adjusting these totals for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $2,777,485 for June 2023, $2,304,983 for July 2023, and $2,205,310 for August 2023.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factors of $5.017/Dth for June 2023, $5.011/Dth for July 2023, and $5.015/Dth for August 2023. The table below shows the commodity 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 (March 2023 - $5.282/Dth) and a year ago (June 2022 - $5.588/Dth, July 2022 - $5.238/Dth, and August 2022 - $4.870/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
June 2023	$50.17	$52.82	($2.65)	$55.88	($5.71)
July 2023	$50.11	$52.82	($2.71)	$52.38	($2.27)
August 2023	$50.15	$52.82	($2.67)	$48.70	$1.45

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, Petitioner 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 total monthly volume of gas estimated in this GCA proceeding. The flex mechanism also applies to the estimated unit price of spot, fixed, or storage gas purchases. The flex mechanism is to be filed no later than three business days before the beginning of each calendar month during the GCA period. Market purchases in the flex mechanism 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. **Gas Cost Incentive Mechanism ("GCIM").** Mr. Mierzwa explained that NIPSCO's GCIM is a mechanism designed to reward the utility if it acquires gas at less than market prices and penalize NIPSCO if it acquires gas at more than market prices. He testified the GCIM benchmarking procedures in place during the Reconciliation Period were those approved as part of the Stipulation and Agreement in Cause No. 41338 GCA 5, as modified by the settlement approved in Cause No. 43629 GCA 48 ("GCA 48 Settlement"). He stated NIPSCO administered the GCIM benchmarking procedures during the Reconciliation Period consistent with the approved procedures. Mr. Mierzwa testified that in total, during the Reconciliation Period, NIPSCO experienced a gain of $3,572,846, including prior period adjustments, under the GCIM which was shared 50% with Petitioner's GCA customers.

Mr. Mierzwa also testified that since tagging procedures were implemented in Cause No. 41338 GCA 9 for exchange transactions, NIPSCO's exchange activities have not had an adverse impact on GCA costs. He noted that until recently, NIPSCO had not engaged in exchange activities for a number of years. Mr. Mierzwa testified that during the Reconciliation Period, NIPSCO's exchange transactions did not have an adverse impact on GCA costs, and he recommended the tagging procedures continue.

Mr. Campbell testified that on January 20, 2023, NIPSCO and the OUCC agreed upon an amendment ("Amendment") to Paragraph 11 of the GCA 48 Settlement. The Amendment addresses Paragraph 11 of the GCA 48 Settlement by setting benchmark procedures for gas supply purchases made to replace discontinued citygate call option deliveries. Mr. Mierzwa explained that under the amendment, if a counterparty discontinues citygate call option deliveries and a replacement supply is purchased on the pipeline originally delivering the discontinued deliveries, the replacement supplies will be benchmarked at the applicable first-of-the-month index price. Paragraph 11 of the GCA 48 Settlement, with the proposed new language underlined, would read as follows:

> Any receipt points not included in the preceding Paragraph will be addressed consistent with the principle that a purchase at any receipt point on a specific pipeline mainline or leg can be replaced by a purchase on any other receipt point on the same specific pipeline mainline or leg. The nearest geographic point(s) to the original baseload on that specific pipeline will be the first to be designated as replacement purchases. Furthermore, purchases made directly at any of NIPSCO's

citygates will not be subject to replacement designation <u>unless a counterparty discontinues call option deliveries under a recallable baseload purchase arrangement or a straddle, where the delivery point is one of NIPSCO's citygates; then, a replacement purchase made in the daily market on the pipeline originally delivering the discontinued deliveries will be designated as a replacement purchase up unto the amount discontinued by the counterparty</u>. The Parties will use their best efforts to define replacement purchases for arrangements not specifically addressed above.

Mr. Campbell stated the GCIM Amendment recognizes changes in the system, the gas procurement practices, and provides a benefit to all parties. Furthermore, consistent with the GCIM Settlement, the evolving market warranted such measures to better align replacement purchase practices, which warrants modification of the GCIM Settlement. Mr. Campbell testified NIPSCO is seeking approval of the GCIM Amendment in this filing and believes the GCIM Amendment is in the best interest of customers.

The Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coal.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996). Before the Commission can approve the Settlement Agreement, the Commission must determine whether the evidence in this Cause sufficiently supports the conclusion that the Settlement Agreement is reasonable, just, and consistent with the purpose of Ind. Code ch. 8-1-2 and that it serves the public interest. Based on the evidence provided, the Commission finds the GCIM Amendment is in the public interest, a reasonable compromise for both parties, and is in the best interest of NIPSCO's customers. The Commission approves the GCIM Amendment as set forth above.

In regard to future citation of the Amendment, we find that our approval of the Amendment should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 WL 34880849 at *7-8 (IURC March 19, 1997).

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

1. The Petition of Northern Indiana Public Service Company LLC for the gas cost adjustment for natural gas service, as set forth in Finding No. 8, is approved, subject to refund in accordance with Finding No. 10.

2. Prior to implementing the rates or future flexed factors, NIPSCO shall file the tariff and applicable rate schedules under this Cause for approval by the Commission's Energy Division. Such rates shall be effective on or after the Order date, subject to Energy Division review and agreement with the amounts reflected.

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

<u>HUSTON, VELETA, AND ZIEGNER CONCUR; FREEMAN ABSENT</u>:

APPROVED: MAY 30 2023

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

Dana Kosco Digitally signed by Dana Kosco
Date: 2023.05.30 14:13:55 -04'00'

Dana Kosco
Secretary of the Commission