ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda	√		
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 DECEMBER 2022 AND JANUARY AND FEBRUARY 2023, PURSUANT TO IND. CODE § 8-1-2-42(g).	)	**CAUSE NO. 43629 GCA 64** **APPROVED: NOV 30 2022**

ORDER OF THE COMMISSION

Presiding Officer:
Carol Sparks Drake, Senior Administrative Law Judge

On September 26, 2022, in accordance with Ind. Code § 8-1-2-42, Northern Indiana Public Service Company LLC ("NIPSCO" or "Petitioner") filed its Verified Petition for Gas Cost Adjustment ("GCA"), with attached Schedules, to be applicable during the months of December 2022 and January and February 2023. That same date, NIPSCO prefiled the direct testimony and exhibits of the following NIPSCO or NiSource Corporate Services Company ("NiSource") employees:

- Andrew S. Campbell, Director of Portfolio Planning and Origination for NIPSCO
- Susan Kimmet, Senior Regulatory Analyst for NiSource.

On October 19, 2022, NIPSCO filed corrections to Schedules that Ms. Kimmet sponsored, including corrections to the following: (1) injection/withdrawal rate that impacted Schedules 1, 1B, and 4; (2) data used in Schedule 11(A); and (3) updated rates for the Federally Mandated Cost Adjustment ("FMCA") rate factors and Universal Service Fund rate factors that were approved after the original filing and impacted Attachment B in Attachment 1-A.

On October 26, 2022, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the direct testimony and exhibits of the following:

- 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") noticed this matter for a public evidentiary hearing at 1:00 p.m. on November 14, 2022, in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. NIPSCO and the OUCC, by counsel, participated in the evidentiary hearing, and the testimony and exhibits of NIPSCO and the OUCC 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 the 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 728,000 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 30,843,000 Dth, with maximum daily withdrawal capability of approximately 538,000 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 April 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 a 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 deal 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 major changes in NIPSCO's contractual agreements for transportation or storage service since NIPSCO's last GCA filing. He stated NIPSCO entered into a firm transportation agreement with NEXUS Gas Transmission, LLC, contract #860538, for an annual volume of 25,050 Dth/day with a winter path from the interconnect with TETCO in the M2 receipt zone to the Milford Junction interconnect with Vector Pipeline, serving as an upstream supply source into Vector Pipeline, and a summer path from the interconnect with TETCO in the M2 receipt zone to Vector St. Clair, serving as a path to inject into Washington 10 Storage. Mr. Campbell stated this contract became effective November 1, 2022, is in effect through March 31, 2028, and will be released as part of the Choice program. Mr. Campbell 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 15% of the contracted transport and storage capacity to the Choice Suppliers, and in November 2022, NIPSCO will 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 net of that released amount and will vary based on NIPSCO's transportation and storage contracts.

Mr. Campbell testified NIPSCO released some excess capacity during July and August 2022. 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 that 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 that an on or off-system constraint can have to flowing supplies of gas, so NIPSCO has taken a conservative position to ensure customers continue to be provided with safe and reliable service. He stated NIPSCO will continue to identify opportunities to maximize the value of the pipeline and storage assets, 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. He testified the parties are awaiting the FERC's Order to see which recommendations from the Administrative Law Judge's Initial Decision are ultimately included in the FERC's final order. He advised that an additional pipeline company, ANR, filed a Section 4 rate case with the FERC in Docket No. RP22-501-000 in which ANR proposes a systemwide general increase in rates to be effective March 1, 2022. Mr. Campbell stated the FERC issued an order on February 28, 2022, suspending the implementation of these rates for five months, and as such, ANR has implemented the filed rates effective August 1, 2022, subject to refund. Mr. Campbell testified NIPSCO has intervened and is participating in this case.

Mr. Campbell also provided an update regarding how the hedging program that is part of NIPSCO's long-term gas supply procurement policy impacts this GCA filing. He testified that given past price volatility and the possibility such conditions may reoccur, NIPSCO has continued its forward price volatility mitigation program for the upcoming winters. Accordingly, NIPSCO established a plan that targets hedging the price on 20% of projected flowing pipeline gas supply purchase requirements for the months of November through March. Mr. Campbell stated NIPSCO elected to achieve its hedge objective by using a cost averaging methodology with the purchase of NYMEX Futures contracts spread evenly across the preceding 12 months at preplanned execution times. He advised this strategy was selected to insulate customers from continued price volatility while maintaining a simplified and transparent program with minimal transaction costs. 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. He also 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, but he stated NIPSCO did not make discretionary hedge purchases during the June, July, and August 2022 reconciliation period. Per Mr. Campbell, the discretionary process allows qualified hedge purchases to be made up to two years earlier than allowed by the non-discretionary hedge plan.

The Commission has directed Indiana's gas utilities to 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. 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 shows 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 September 19, 2018, in Cause No. 44988 (the "44988 Order"). In the 44988 Order, for Step 3, the Commission authorized NIPSCO to earn a net operating income ("NOI") of $98,734,717, excluding the Transmission, Distribution, and Storage

System Improvement Charge ("TDSIC") and FMCA Mechanism. Pursuant to the Commission's Orders in Cause Nos. 45330 TDSIC 2 and 3, and Cause Nos. 45007 FMCA 5, 6, and 7, NIPSCO added approved TDSIC operating income of $7,583,049 and recovery of approved FMCA costs of $8,734,639 to its authorized NOI for the 12 months ending June 30, 2022, resulting in a total authorized NOI of $115,052,405. Petitioner's evidence demonstrates for the 12 months ending June 30, 2022, NIPSCO's actual NOI was $81,957,702, which is $33,094,703 less than NIPSCO's authorized NOI of $115,052,405; therefore, based on the evidence, we find under Ind. Code § 8-1-2-42.3, NIPSCO is not earning a return in excess of that authorized.

6. <u>Estimation of Purchased Gas Costs</u>. 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 1.29% for the period ending August 31, 2022, with no variance for June through August 2022 exceeding 10%. We find NIPSCO's estimating techniques and its prospective average estimate of gas costs are reasonable based on the evidence presented and its historical gas cost estimates.

7. <u>Reconciliations</u>.

A. <u>Variances</u>. 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 June 2022 through August 2022 ("Reconciliation Period") is an under-collection of $16,309,893 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 an increase in the estimated net cost of gas is $8,557,721.

The commodity and bad debt variance from prior recovery periods applicable to the current recovery period is an under-collection of $2,813,107. 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 $11,370,828 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 $5,644,895 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 $3,045,390.

The demand variance from prior recovery periods applicable to the current recovery period is an over-collection of $5,642,505. Combining this amount with the Reconciliation Period demand variance to be included in this GCA results in a total over-collection of $8,687,891 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 December 2022 is $104,229,983, for January 2023 is $129,008,309, and for February 2023 is $94,157,893. Adjusting these totals for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $105,014,863 for December 2022, $129,977,363 for January 2023, and $95,086,892 for February 2023.

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factors of $7.327/Dth for December 2022, $7.790/Dth for January 2023, and $7.627/Dth for February 2023. 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 (September 2022 - $5.537/Dth) and a year ago (December 2021 - $5.628/Dth, January 2022 - $5.216/Dth, and February 2022 - $5.381/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
December 2022	$73.27	$55.37	$17.90	$56.28	$16.99
January 2023	$77.90	$55.37	$22.53	$52.16	$25.74
February 2023	$76.27	$55.37	$20.90	$53.81	$22.46

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 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 quarter. 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. **<u>Gas Cost Incentive Mechanism ("GCIM")</u>.** Mr. Mierzwa testified the GCIM benchmarking procedures in place during the GCA 64 review period were those set forth in the Stipulation and Agreement in Cause No. 41338 GCA 5, as modified by the Stipulation and Settlement Agreement the Commission approved in Cause No. 43629 GCA 48. He stated NIPSCO administered the GCIM benchmarking procedures during the GCA 64 review period consistent with approved procedures. Mr. Mierzwa testified that in total, during the GCA 64 review period, NIPSCO experienced a gain of $1,763,362, 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 ("GCA 9") for exchange transactions, NIPSCO's exchange activities have not had an adverse impact on GCA costs; therefore, the tagging procedures should continue. He noted that until recently, NIPSCO had not engaged in exchange activities for a number of years. Mr. Mierzwa testified that NIPSCO's exchange transactions during the GCA 64 review period did not have an adverse impact on GCA costs.

In Cause No. 43629 GCA 63 ("GCA 63"), NIPSCO and the OUCC were directed to discuss the benchmarking of recallable purchases, straddles, and continuous extendables when a replacement supply is purchased and update the Commission in this GCA upon these discussions. Mr. Mierzwa testified NIPSCO and the OUCC held a conference call on October 14, 2022, to discuss the replacement designation for recallable purchases as the Commission directed. As a result of these discussions, he stated NIPSCO agreed to track and provide additional detail concerning replacement purchases. Mr. Mierzwa testified that NIPSCO and the OUCC will continue to discuss the benchmarking of replacement purchases based on this additional detail and will update the Commission in future GCA proceedings. Given the agreed additional detail to be shared and anticipated related discussions, the Commission finds its directive in GCA 63 concerning these matters has been satisfied, and the Commission awaits such additional updates as NIPSCO or the OUCC deems appropriate.

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, FREEMAN, KREVDA, VELETA, AND ZIEGNER CONCUR</u>:

APPROVED: NOV 30 2022

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: 2022.11.30
10:15:12 -05'00'

Dana Kosco
Secretary of the Commission