ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Bennett	√		
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 SEPTEMBER, OCTOBER, AND NOVEMBER 2024, PURSUANT TO IND. CODE § 8-1-2-42(g).	))))))	**CAUSE NO. 43629 GCA 71** **APPROVED: AUG 28 2024**

ORDER OF THE COMMISSION

Presiding Officer:
Kristin E. Kresge, Administrative Law Judge

On June 26, 2024, in accordance with Ind. Code § 8-1-2-42, Northern Indiana Public Service Company LLC ("NIPSCO") filed its Verified Petition for Gas Cost Adjustment ("GCA"), with attached Schedules, to be applicable during the months of September, October, and November 2024. Also on June 26, 2024, NIPSCO prefiled the direct testimony and exhibits of Patrick J. Pluard, Director of Portfolio Optimization for NIPSCO, and Susan Kimmet, Lead Regulatory Analyst for NiSource Corporate Services Company. On July 11, 2024, NIPSCO filed a correction to the direct testimony of Susan Kimmet.

On July 26, 2024, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the direct testimony and exhibits of Zachary D. Leinheiser, Utility Analyst in the OUCC's Natural Gas Division, and Jerome D. Mierzwa, Principal and Vice President of Exeter Associates, Inc.

The Indiana Utility Regulatory Commission ("Commission") held an evidentiary hearing in this Cause at 2:00 p.m. on August 12, 2024, 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. For this reason, 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 the laws of Indiana. NIPSCO's principal office is located at 801 East 86th Avenue, Merrillville, Indiana. NIPSCO renders natural gas utility service to the public in 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 to provide gas to its retail customers at the lowest gas cost reasonably possible.

Mr. Pluard testified 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 multiple suppliers from various 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 seven 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. Pluard testified NIPSCO has firm transportation contracts with Natural Gas Pipeline Company of America ("Natural"), Panhandle Eastern Pipeline 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 786,000 Dth per day. Mr. Pluard stated the winter season is defined as the peak season, and the summer season is the off-peak season.

With regards to storage, Mr. Pluard 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 28,877,000 Dth, with maximum daily withdrawal capability of approximately 511,000 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, 2024, noting that actual storage inventory generally varies from this plan primarily due to weather, changing market conditions, and operational issues. Mr. Pluard stated that 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. Pluard testified 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 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. Pluard testified NIPSCO entered a combination of storage and/or transportation Asset Management Arrangements ("AMAs") that will impact the September, October, and November 2024 period. He stated NIPSCO entering four storage AMAs and five transport AMAs for the 2024 summer season.

Mr. Pluard 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 13% of the contracted transport and storage capacity to the Choice Suppliers. He stated in November 2024, NIPSCO will recalculate the capacity to be allocated to those suppliers. Mr. Pluard 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. Pluard testified there is one contract due to expire during September, October, and November 2024.

Mr. Pluard testified NIPSCO did not release any excess capacity during the reconciliation period, stating NIPSCO needs a majority of the capacity to serve the needs of the system due in part to off-system and on-system maintenance and for the winter months. 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. Pluard 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. He 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 approach to ensure customers continue to be provided with safe and reliable service. Mr. Pluard stated NIPSCO has and will continue to identify opportunities to maximize the value of the pipeline and storage assets, including capacity releases. He stated NIPSCO did have on-system constraints but did not have off-system constraints during the reconciliation period.

Mr. Pluard testified NIPSCO's volatility mitigation program remains consistent with the Commission's recommendations in Cause Nos. 37396 GCA 63 and 38431 GCA 51. He stated NIPSCO made discretionary hedge purchases for the reconciliation period and has made periodic discretionary hedge purchases for many winters since 2011. The discretionary process allows qualified hedge purchases to be made up to two years earlier than allowed by the non-discretionary hedge plan. Mr. Pluard explained that in addition to NIPSCO's gas volatility mitigation program, NIPSCO implemented a Commission approved long-term hedge program in 2016, at which time, NIPSCO began fixing a portion of its future expected annual purchases. He stated NIPSCO chose a long-term time horizon of 10-years given the historical low prices at that time and the perceived value of "locking in" a fixed price. Mr. Pluard testified these agreements are staggered and will begin to expire in 2026 and will completely terminate in December of 2027. He stated currently, approximately 17% of NIPSCO's annual purchases are fixed at a price of $3.08/Dth.

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 has 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 request or file, 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. <u>Earnings Test</u>. 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 2, the Commission authorized for NIPSCO to earn a net operating income ("NOI") of $156,123,700, excluding the transmission, distribution, and storage system improvement charge ("TDSIC") and federally mandated cost adjustment mechanism ("FMCA"). Pursuant to the Commission's Orders in Cause Nos. 45330 TDSIC 4, 45330 TDSIC 6, 45330 TDSIC 7, 45560 FMCA 2, and 45703 FMCA 1, NIPSCO added approved TDSIC operating income of $9,246,783 and recovery of approved FMCA operating income of $6,268,038 to its authorized NOI for the 12 months ending March 31, 2024, resulting in a total authorized NOI of $171,638,521. NIPSCO's evidence demonstrates for the 12 months ending March 31, 2024, NIPSCO's actual NOI was $131,013,629, which is $40,624,892 less than NIPSCO's authorized NOI of $171,638,521; 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 amount 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 ending May 2024 is positive (+) 6.79%. Based on NIPSCO's historical accuracy in estimating the cost of gas, we find NIPSCO's estimating techniques are sound and NIPSCO's prospective average estimate of gas costs is reasonable.

7. <u>Reconciliations</u>.

A. <u>Variances</u>. Ind. Code § 8-1-2-42(g)(3)(D) also requires NIPSCO reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the commodity and bad debt variance for the months of March 2024 through May 2024 ("Reconciliation Period") is an over-collection of $10,731,165 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 $2,018,186.

The commodity and bad debt variance from prior recovery periods applicable to the current recovery period is an under-collection of $6,268,820. 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 $4,250,634 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 under-collection of $1,586,358 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 an increase in the estimated net cost of gas is $291,979.

The demand variance from prior recovery periods applicable to the current recovery period is an over-collection of $344,077. Combining this amount with the Reconciliation Period demand variance to be included in this GCA results in a total over-collection of $52,098 to be applied to this GCA as a decrease in the estimated net cost of gas.

B. **Refunds.** NIPSCO did not receive any new refunds during the Reconciliation Period. NIPSCO has $3,894,333 of prior period refunds to be refunded in this GCA. The Commission finds that NIPSCO has $3,894,333 in refunds to be applied in this GCA as a decrease in the net cost of gas as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for September 2024 is $3,717,107, for October 2024 is $10,858,884, and for November 2024 is $25,722,393. Adjusting these totals for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $3,749,288 for September 2024, $10,952,711 for October 2024, and $25,900,588 for November 2024.

9. **Effects on Residential Customers.** NIPSCO requests authority to approve the GCA factor of $4.265/Dth for September 2024, $3.071/Dth for October 2024 and $3.491/Dth for November 2024. The table below shows the gas costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (June 2024 - $4.042/Dth) and a year ago (September 2023 - $4.439/Dth, October 2023 - $2.979/Dth, and November 2023 - $3.494/Dth). The table reflects costs approved through the GCA process. It does not include NIPSCO's base rates or any applicable rate adjustment mechanisms.

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference	Gas Costs (10 Dth)	Difference
September 2024	$42.65	$40.42	$2.23	$44.39	($1.74)
October 2024	$30.71	$40.42	($9.71)	$29.79	$0.92
November 2024	$34.91	$40.42	($5.51)	$34.94	($0.03)

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 has indicated in prior Orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. The monthly flex mechanism is designed to address this concern. NIPSCO has elected to utilize a monthly flex mechanism to adjust its GCA factor up to the cap of $2.00 on the total GCA factor monthly. Since NIPSCO is utilizing a monthly flex mechanism, NIPSCO must file a monthly flex tariff in the applicable GCA proceeding, including a notification of not flexing as warranted. The flex mechanism is to be filed no later than three business days before the beginning of each calendar month during the GCA period.

12. **Gas Cost Incentive Mechanism ("GCIM").** Mr. Mierzwa testified the GCIM benchmarking procedures in place during the GCA 71 review 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, and the Commission's November 29, 2023, Order in GCA 68. He stated NIPSCO has administered the GCIM benchmarking procedures during the GCA 71 review period consistent with the approved procedures. Mr. Mierzwa testified that in total, during the GCA 71 review period, NIPSCO experienced a gain of $1,815,215 (including prior period adjustments) under the GCIM, which was shared 50% with NIPSCO's GCA customers.

Mr. Mierzwa also testified that since tagging procedures were implemented in Cause No. 41338 GCA 9 ("GCA 9"), 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 during the GCA 71 review period, NIPSCO's exchange transactions did not have an adverse impact on GCA costs, and he recommended the tagging procedures continue.

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. Petitioner shall file a monthly flex tariff under this Cause for approval by the Commission's Energy Division. Such rates shall be effective on or after the Order date subject to Division review and agreement in the amounts reflected.

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

HUSTON, BENNETT, FREEMAN, VELETA, AND ZIEGNER CONCUR:

APPROVED: AUG 28 2024

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: 2024.08.28 10:13:16
-04'00'

Dana Kosco
Secretary of the Commission