FILED
October 26, 2020
INDIANA UTILITY
REGULATORY COMMISSION

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 2020 AND JANUARY AND FEBRUARY 2021, PURSUANT TO IND. CODE § 8-1-2-42(g)	))))))	**CAUSE NO. 43629 GCA-56**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S

PUBLIC'S EXHIBIT NO. 4 – PREPARED TESTIMONY OF JEROME D. MIERZWA

With the current requirement that all staff work from home, signatures for affirmations are not available at this time.

October 26, 2020

Respectfully submitted,

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PUBLIC'S EXHIBIT NO. 4
PREPARED TESTIMONY OF JEROME D. MIERZWA

CAUSE NO. 43629 GCA 56

NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 43629 GCA 56
PREPARED TESTIMONY OF JEROME D. MIERZWA

I. INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Jerome D. Mierzwa. I am a Principal and President of Exeter Associates, Inc. ("Exeter"). My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-related consulting services.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I graduated from Canisius College in Buffalo, New York, in 1981 with a Bachelor of Science Degree in Marketing. In 1985, I received a Master's Degree in Business Administration with a concentration in finance, also from Canisius College. In July 1986, I joined National Fuel Gas Distribution Corporation ("NFG Distribution") as a Management Trainee in the Research and Statistical Services Department ("RSS"). I was promoted to Supervisor RSS in January 1987. While employed with NFG Distribution, I conducted various financial and statistical analyses related to the company's market research activity and state regulatory affairs. In April 1987, as part of a corporate reorganization, I was transferred to National Fuel Gas Supply Corporation's ("NFG Supply") rate department where my responsibilities included utility cost of service and rate design analysis, expense and revenue requirement forecasting and activities related to federal regulation. I was also responsible for preparing NFG Supply's Federal Energy Regulatory Commission ("FERC") Purchase

Gas Adjustment ("PGA") filings and developing interstate pipeline and spot market supply gas price projections. These forecasts were utilized for internal planning purposes as well as in NFG Distribution's state purchased gas cost review proceedings.

In April 1990, I accepted a position as a Utility Analyst with Exeter. In December 1992, I was promoted to Senior Regulatory Analyst. Effective April 1, 1996, I became a principal of Exeter. Since joining Exeter, my assignments have included evaluating the gas purchasing practices and policies of natural gas utilities, utility class cost of service and rate design analysis, sales and rate forecasting, performance-based incentive regulation, revenue requirement analysis, the unbundling of utility services and the evaluation of customer choice natural gas transportation programs.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS ON UTILITY RATES?

A. Yes. I have provided testimony on more than 350 occasions in proceedings before the FERC, utility regulatory commissions in Arkansas, Delaware, Georgia, Illinois, Louisiana, Maine, Maryland, Massachusetts, Montana, Nevada, New Jersey, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Utah, and Virginia, as well as before this Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Exeter has been retained by the Indiana Office of Utility Consumer Counselor ("OUCC") to assist in the review of the reasonableness of the actual gas costs of the Northern Indiana Public Service Company ("NIPSCO" or "the Company") reported for the period June through August 2020 in its filing at Cause No. 43629 GCA 56 ("GCA-56 review period" or "review period"). My review focused on evaluating the results of the Company's Gas Cost Incentive Mechanism ("GCIM") under which

NIPSCO operated during the GCA-56 review period. I also examined whether NIPSCO's gas procurement practices and policies were reasonable and consistent with least cost procurement standards during the review period. My testimony presents the results of my review and my recommendations.

Also presenting testimony on behalf of the OUCC in this proceeding is Mark H. Grosskopf of the OUCC. Mr. Grosskopf addresses whether NIPSCO has adequately documented its actual gas costs and the accuracy of the calculations supporting the Company's proposed GCA factors to be applied during the December 2020 through February 2021 billing cycles.

Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A. My findings and recommendations concerning NIPSCO's GCIM, gas procurement activities and related costs are as follows:

- NIPSCO reasonably administered the assignment of capacity to Choice Suppliers and its Capacity Release Revenue Sharing Mechanism during the GCA-56 review period;
- NIPSCO reasonably administered its GCIM and has been able to adequately document the results of its GCIM during the review period; and
- The tagging procedures approved for exchange transactions under NIPSCO's GCIM in Cause No. 41338-GCA-9 should be continued.

II. CAPACITY ASSIGNMENT AND RELEASE ACTIVITIES

Q. PLEASE DESCRIBE NIPSCO'S CAPACITY ASSIGNMENT AND RELEASE ACTIVITIES DURING THE REVIEW PERIOD.

A. Under the settlement approved in Cause No. 43837, which became effective May 1, 2010 ("2010 Gas ARP Settlement"), NIPSCO adopted mandatory capacity assignment for suppliers participating in its Choice Program ("Choice Supplier"). Mandatory capacity assignment is a process through which NIPSCO allocates and releases a pro-rata share of its interstate pipeline transportation and storage capacity to Choice Suppliers. Choice Suppliers must either accept the assignment of their allocated capacity and pay the costs associated with that capacity directly to the interstate pipelines, or may elect to decline the assignment. If a Choice Supplier declines the assignment, the Choice Supplier must reimburse NIPSCO for the costs associated with their allocated share of interstate pipeline transportation and storage capacity ("mitigated release revenues").

In addition to assigning capacity to Choice Suppliers, NIPSCO may release capacity to third parties. Under the 2010 Gas ARP Settlement, NIPSCO was permitted to retain 15 percent of the revenues it was able to generate from releases to third parties ("capacity release sharing mechanism"). This capacity release sharing mechanism was continued under the settlement approved by the Commission in Cause No. 44081 ("2012 Gas ARP Settlement"). The 2012 Gas ARP Settlement also provided that for each year ended March 31, capacity release revenues subject to sharing would be the lower of $1 million or the actual total revenues from the previous year, with NIPSCO being required to credit the GCA for any revenue sharing deficiency.

The Stipulation and Settlement Agreement approved in Cause No. 43629 GCA 48 ("GCA-48 Settlement") modified the capacity release sharing provisions in effect beginning with the GCA-50 review period (September through November 2018). The 2012 Gas ARP Settlement provided that for each year ended March 31, capacity release revenues subject to sharing would be the lower of $1 million or the actual total revenues from the previous year, with NIPSCO being required to credit the GCA for any revenue sharing deficiency. The GCA-48 Settlement provided for the elimination of this provision from the 2012 Gas ARP Settlement. In addition, the GCA-48 Settlement provides that NIPSCO will be entitled to retain 25 percent of the revenues generated by releasing interstate pipeline capacity not assigned to Choice Suppliers, and 75 percent would be credited to GCA customers. Under the 2012 Gas ARP Settlement, NIPSCO was entitled to retain 15 percent of the revenues and 85 percent was credited to GCA customers. NIPSCO did not realize any capacity release revenues which were subject to sharing during the GCA-56 review period.

Q. HAS NIPSCO REASONABLY ADMINISTERED THE ASSIGNMENT OF CAPACITY TO CHOICE SUPPLIERS AND ITS CAPACITY RELEASE REVENUE SHARING MECHANISM DURING THE GCA-56 REVIEW PERIOD?

A. Our audit revealed that NIPSCO reasonably administered the assignment of capacity to Choice Suppliers. There were no revenues generated from the release of capacity to third parties which were subject to the capacity release sharing mechanism during the GCA-56 review period.

III. GAS COST INCENTIVE MECHANISM

Q. PLEASE DESCRIBE NIPSCO'S GCIM.

A. NIPSCO's GCIM is an incentive mechanism designed to reward the Company if it acquires gas at less than market prices and penalize NIPSCO if it acquires gas at more than market prices. Under the GCIM, the actual cost of each gas purchase made by NIPSCO is compared to a benchmark which reflects the cost of the purchase had it been made at a market price for the location, type of purchase, and time at which the purchase was made. Index prices reported in gas industry publications serve as market prices under the GCIM. On a monthly basis, NIPSCO's actual gas costs are compared to the benchmark. If NIPSCO's actual gas costs are less than the benchmark, NIPSCO is rewarded with 50 percent of the difference between actual costs and the benchmark. If NIPSCO's actual gas costs exceed the benchmark, NIPSCO is penalized 50 percent of the difference between actual costs and the benchmark.

The proceeds from structured deals and exchange transactions are reflected as a reduction to NIPSCO's actual gas costs under the current GCIM procedures. These arrangements are discussed later in my testimony.

Q. PLEASE DESCRIBE THE GCIM BENCHMARKING PROCEDURES IN GREATER DETAIL.

A. NIPSCO purchases gas at a number of interstate pipeline receipt point trading locations. These trading locations include the following:

Alliance Pipeline
- Alliance Chicago Exchange

ANR Pipeline ("ANR")
- Louisiana
- Oklahoma
- Rockies Express Pipeline

Natural Gas Pipeline Company of America ("NGPL")
- Mid-Continent
- South Texas
- Texas/Oklahoma
- Rockies Express

Panhandle Eastern Pipeline ("PEPL")
- Texas/Oklahoma
- Rockies Express

Texas Eastern Transmission ("Texas Eastern")
- East Louisiana
- West Louisiana
- South Texas
- Rockies Express

Trunkline Pipeline
- East Louisiana
- West Louisiana
- Zone 1A

Chicago Citygate

NIPSCO's purchases can generally be categorized as either monthly base load or daily swing purchases. Monthly base load purchases are generally arranged on a monthly basis, and the same quantity of gas is delivered on each day during the month. Monthly base load purchases are generally arranged several days prior to the month of flow (during what is referred to as "bidweek") and commence flowing on the first-of-the-month ("FOM"). All other purchases made by NIPSCO are generally considered daily purchases and, as the term implies, are typically made on a day-to-day basis. NIPSCO will frequently make daily purchases which flow for several consecutive days.

Gas industry publications report index prices on a monthly basis for FOM monthly base load purchases and on a daily basis for swing purchases for nearly all of the locations NIPSCO purchases gas. Under the GCIM in effect during the GCA-56 review period, each NIPSCO gas purchase is benchmarked based on the type of purchase (monthly base load or daily) and location. More specifically, monthly base load purchases are benchmarked based on the average of FOM index prices reported in *Inside FERC's Gas Market Report* ("*Inside FERC*") and the Natural Gas Intelligence ("NGI") Bidweek Survey for the applicable month and location. Daily purchases are benchmarked based on the average of prices reported in *Gas Daily* and the NGI Daily Price Survey for the applicable day and location. These benchmarking procedures, as well as the benchmarking procedures subsequently discussed for structured deals, were generally approved in 2004 in Cause No. 41338 GCA-5.[1]

[1] In Cause No. 44988, a tariff using the NGI Bidweek Survey was approved for benchmarking monthly base load purchases in lieu of Natural Gas Week Bidweek prices. NIPSCO, Original Volume No. 8, Original Sheet No. 43.

STRUCTURED DEALS

Q. PLEASE DESCRIBE THE STRUCTURED DEALS WHICH NIPSCO HAS HISTORICALLY ARRANGED UNDER THE GCIM.

A. Structured deals under NIPSCO's GCIM have included recallable baseload purchases, straddles, continuous extendables, and summer and winter period virtual storage AMAs. Under a recallable baseload purchase, a counter-party agrees to deliver a specified quantity of gas to NIPSCO (usually 10,000 Dth per day) at a specified receipt point on each day during a specific month, and NIPSCO sells the counter-party a call option entitling the counter-party to discontinue, or recall, delivery of that gas on any day during the month (call option deliveries).

A straddle is a recallable purchase that also gives the counter-party the option to deliver an additional specified quantity of gas to NIPSCO (usually 10,000 Dth per day) on any day during a specific month (put option deliveries). Deliveries to NIPSCO by the counter-party under a recallable baseload purchase or straddle are priced at the applicable FOM index price. Thus, if during the month the daily market price of gas declines from the FOM index price, a counter-party would have the incentive to continue call option deliveries under a recallable baseload purchase or straddle and, under a straddle, to exercise the put option and deliver additional gas to NIPSCO. The counter-party would maximize deliveries to NIPSCO under a recallable purchase or straddle arrangement when prices decline because it could presumably buy gas at the lower daily price and sell it to NIPSCO at the higher FOM index price. If the daily price of gas increases above the FOM index price under a recallable purchase or straddle, a counter-party would have the incentive to discontinue all deliveries. The counter-party would do so because it could sell the gas being delivered to NIPSCO to other markets at a higher price than it would receive from NIPSCO.

Q. PLEASE DESCRIBE A CONTINUOUS EXTENDABLE.

A. Under a continuous extendable, a counter-party is required to deliver gas at a specific receipt point for a specified number of days commencing on the first day of the month. Typically, the specified delivery period is seven days and the delivered quantity is 10,000 Dth per day. The price paid by NIPSCO for the gas is initially set at an applicable FOM index minus a discount. After the specified delivery period, the purchase price is equal to the FOM index price flat, that is, with no discount, and the counter-party has the option to discontinue delivering the gas. Under a continuous extendable, as with a recallable purchase or straddle, a counter-party has the incentive to discontinue delivering gas after seven days if the daily market price of gas increases above the FOM index price, and continue delivering gas if the daily price declines below the FOM price.

Q. PLEASE EXPLAIN HOW RECALLABLE BASELOAD PURCHASES, STRADDLES, AND CONTINUOUS EXTENDABLES ARE ACCOUNTED FOR UNDER THE GCIM.

A. NIPSCO is typically paid a fee for entering into a recallable baseload purchase or straddle which is reflected as a credit to NIPSCO's actual gas costs under the GCIM. Call option deliveries under a recallable baseload purchase or straddle are benchmarked at the applicable FOM index price because the supplies are intended to be monthly baseload purchases. Put option deliveries under a straddle are benchmarked at the applicable daily index price. If a counter-party discontinues call option deliveries under a recallable baseload purchase or straddle and a replacement supply is purchased by NIPSCO, the same FOM index price is used to benchmark the replacement purchase.

The applicable FOM index price is also utilized for benchmarking supplies delivered under a continuous extendable. If a counter-party discontinues deliveries and the discontinued supplies are replaced, similar to a recallable baseload purchase or straddle, the replacement purchase is benchmarked against the applicable FOM index price.

Q. HOW IS IT DETERMINED WHETHER A PURCHASE BY NIPSCO IS A REPLACEMENT PURCHASE FOR DELIVERIES THAT HAVE BEEN DISCONTINUED UNDER A RECALLABLE BASELOAD PURCHASE, STRADDLE, OR CONTINUOUS EXTENDABLE?

A. The GCA-48 Settlement established the GCIM benchmarking procedures that were in place during the GCA-56 review period, and a purchase is considered a replacement purchase if NIPSCO makes an incremental purchase on the same interstate pipeline segment delivering to the same delivery point that the recallable baseload purchase, straddle, or continuous extendable was being made prior to being discontinued.

Q. PLEASE DESCRIBE NIPSCO'S SUMMER PERIOD VIRTUAL STORAGE AMA STRUCTURED DEALS.

A. A summer period virtual storage AMA is an arrangement wherein a counter-party agrees to inject into one of NIPSCO's interstate pipeline storage arrangements on NIPSCO's behalf a specified quantity of gas generally during the 7-month summer injection period (April – October). During the 7-month summer injection period, the counter-party is entitled to inject or withdraw varying quantities of gas on a daily basis subject to agreed upon quantity limitations, subject to the requirement that the net amount injected into storage by the end of summer injection period is equivalent to the amount specified in the AMA. Under a summer period virtual storage AMA, NIPSCO generally releases a portion of its interstate pipeline transportation and storage capacity to a counter-party, who then utilizes the released transportation capacity to fill the released storage capacity.

Q. HOW ARE NIPSCO'S SUMMER PERIOD VIRTUAL STORAGE AMA STRUCTURED DEALS ACCOUNTED FOR UNDER THE GCIM?

A. NIPSCO typically purchases $1/7^{th}$ of the specified amount of gas to be injected into storage on its behalf by the counter-party during each month of the summer injection period. The purchase price for this gas is at a discount to the applicable GCIM benchmark price. This discount is shared with GCA customers pursuant to the GCIM sharing procedures.

Q. PLEASE DESCRIBE NIPSCO'S WINTER PERIOD VIRTUAL STORAGE AMA STRUCTURED DEALS.

A. Under a winter period virtual storage AMA, NIPSCO generally releases a portion of its interstate pipeline storage capacity and inventory to a counter-party which is entitled to use that storage when not needed by NIPSCO. NIPSCO maintains full use of its daily storage injection and withdrawal rights released to the counter-party. In return for providing the counter-party access to this storage, NIPSCO is entitled to purchase a specified monthly baseload quantity of gas from the counter-party at a discount to the applicable first-of-the-month index price. This discount is shared with GCA customers under the GCIM.

Q. HAS NIPSCO REASONABLY ADMINISTERED THE GCIM DURING THE REVIEW PERIOD?

A. Yes. The GCIM benchmarking procedures in place during the GCA-56 review period were those approved as part of the Stipulation and Agreement in Cause No. 41338-GCA-5, as modified by the GCA-48 Settlement. In total, during the GCA-56 review period, NIPSCO experienced a gain of $802,294 under the GCIM which was shared 50 percent with GCA customers.

EXCHANGE TRANSACTIONS

Q. PLEASE DESCRIBE NIPSCO'S EXCHANGE TRANSACTIONS.

A. NIPSCO's exchange transactions include parks and loans. A park is a transaction wherein a counter-party delivers gas to NIPSCO during one month and NIPSCO returns that gas during a subsequent month. A loan is a transaction wherein NIPSCO delivers gas to a counter-party during one month and the counter-party returns that gas during a subsequent month. Park and loan deliveries are generally made ratably during a month. That is, the same quantity of gas is delivered or received on each day (usually 10,000 Dth per day). NIPSCO receives a fee for its park and loan activities which are credited against actual gas costs under the GCIM.

Q. PLEASE DESCRIBE THE PROCEDURES APPROVED BY THE COMMISSION FOR EXCHANGE TRANSACTIONS IN CAUSE NO. GCA-9.

A. The settlement approved in Cause No. 41338 GCA-9 provided for the assignment, or tagging, of a price to each end of a park or loan transaction. More specifically, when gas is received from a counter-party under an exchange transaction, NIPSCO tags the transaction with the highest of the following three monthly prices:

- FOM index price at the actual point of the exchange;
- Average of the daily *Gas Daily* index prices for the month at the actual point of the exchange; or

- NIPSCO's average monthly cost of gas exclusive of price volatility mitigation strategies.

When gas is delivered to a counter-party by NIPSCO, the transaction is tagged with the lowest of the above three monthly prices. Tagging procedures for exchange transactions were adopted to evaluate whether GCA customers were being adversely affected by NIPSCO's exchange transactions. GCA customers could be adversely affected by exchange transactions if NIPSCO was receiving gas from counter-parties when gas prices were low and returning the gas when prices were higher.

Q. SHOULD THE TAGGING PROCEDURES APPROVED IN CAUSE NO. 41338 GCA-9 BE CONTINUED?

A. Yes. Since tagging procedures have been implemented, they have revealed that to date, NIPSCO's exchange activities have not had an adverse impact on GCA costs. Therefore, the tagging procedures should be continued at this time. I would note, however, that since Cause No. 41338 GCA-9, NIPSCO has significantly reduced its exchange transaction activity, and engaged in no such activity during the GCA-56 review period.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***PREPARED TESTIMONY OF JEROME D. MIERZWA*** has been served upon the following parties of record in the captioned proceeding by electronic service on October 26, 2020.

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