STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR (1) AUTHORITY TO MODIFY ITS RATES AND CHARGES FOR GAS UTILITY SERVICE THROUGH A PHASE IN OF RATES; (2) MODIFICATION OF THE SETTLEMENT AGREEMENTS APPROVED IN CAUSE NO. 43894; (3) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES, GENERAL RULES AND REGULATIONS, AND RIDERS; (4) APPROVAL OF REVISED DEPRECIATION RATES APPLICABLE TO ITS GAS PLANT IN SERVICE (5) APPROVAL OF NECESSARY AND APPROPRIATE ACCOUNTING RELIEF; AND (6) AUTHORITY TO IMPLEMENT TEMPORARY RATES CONSISTENT WITH THE PROVISIONS OF IND. CODE CH. 8-1-2-42.7.	)	**CAUSE NO. 44988**

Cross-Answering Testimony of

Nicholas Phillips, Jr.

On behalf of

The NIPSCO Industrial Group

March 28, 2018

BRUBAKER & ASSOCIATES, INC.

Project 10487

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Cross-Answering Testimony of Nicholas Phillips, Jr.

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Nicholas Phillips, Jr. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q ARE YOU THE SAME NICHOLAS PHILLIPS, JR. WHO PRE-FILED DIRECT TESTIMONY IN THIS DOCKET ON BEHALF OF THE NIPSCO INDUSTRIAL GROUP ("INDUSTRIAL GROUP")?

A Yes, I am.

Q HAVE YOU BEEN INVOLVED WITH PRIOR PROCEEDINGS BEFORE THE INDIANA UTILITY REGULATORY COMMISSION ("IURC" OR "COMMISSION")?

A Yes. I have been involved in prior proceedings before this Commission and have presented testimony in many of those proceedings. I have been involved with matters

relating to NIPSCO for many years, including NIPSCO's last gas rate case, and as well as previous cases, which established NIPSCO's gas transportation rates including Cause No. 38380.

Q WHAT TESTIMONY ARE YOU PRESENTING AT THIS TIME?

A I am presenting testimony that responds to OUCC witness Brien R. Krieger concerning the appropriate cost allocation methodology and the proper design of NIPSCO's gas rates. More specifically, I will address the correct allocation of transmission mains to classes, and the proposed change in methodology from that used in NIPSCO's previous base rate case.

Q HAVE YOU REVIEWED THE DIRECT TESTIMONY OF MR. KRIEGER REGARDING THE ALLOCATION OF TRANSMISSION MAINS?

A Yes. Mr. Krieger notes that NIPSCO has proposed to change the way it allocates transmission mains. Mr. Krieger states he agrees with NIPSCO's proposed change. The entire testimony on this issue is on page 2 of Mr. Krieger's direct testimony.

Q DO YOU AGREE WITH MR. KRIEGER REGARDING THE PROPOSED CHANGE IN METHODOLOGY FOR THE ALLOCATION OF TRANSMISSION MAINS TO CUSTOMER CLASSES?

A No. The proposed change in the method of allocation of transmission mains is not supported by any meaningful analysis and is without merit. The basic reasons I disagree with Mr. Krieger include:

- The peak and average method is illogical and has no link to cost causation. There is no study to support the validity of peak and average method.

- The peak and average method rewards low load factor customers (inefficient usage) and punishes high load factor customers for efficient usage.

- FERC has endorsed the straight fixed variable method for cost allocation associated with interstate pipeline transmission investment since 1992 when transportation service was fully implemented under Order 636.

- Delivery of power from a wide variety of sources is common and not a valid reason to change a cost allocation methodology for delivery service. Electric transmission lines are allocated on a peak demand basis for all major utilities by this Commission. Electric transmission systems deliver power from a wide variety of diverse generation sources to customers in Indiana.

- There is no study supporting a valid reason to change from the current methodology that is consistent with the method approved by the Commission Cause No. 38380 to a method based on average throughput.

Q IS THE PEAK AND AVERAGE A LOGICAL METHOD OF COST ALLOCATION?

A No. The peak and average method uses the annual system load factor to determine the percentage of fixed delivery system investment allocated on system throughput. As load factor, which is a measure of system efficiency, increases, the percentage of plant allocated on system throughput increases. Large manufacturing customers use gas consistently throughout the year and increase system load factor. Therefore, the peak and average method is illogical because it allocates even more costs to those customers that increase system load factor and punishes efficient usage.

Q DO ALL CUSTOMERS BENEFIT FROM A MORE EFFICIENT SYSTEM?

A Yes. More throughput without an increase in demand makes the system more efficient and reduces costs to all ratepayers. If the system load factor improves (increased throughput without an increase in peak demand), the system would be more efficient and fixed cost per unit would decrease. However, the peak and average formula would unfairly increase the allocation on throughput and punish the higher load factor classes that are responsible for increasing the efficiency of the system. The use of average

demand penalizes customers that exhibit efficient gas consumption (higher load factors). Under-utilization of the system should not be rewarded since it results in higher per unit prices for all customers.

Q DOES FERC USE THE PEAK AND AVERAGE METHOD TO ALLOCATE INTERSTATE TRANSMISSION PIPELINES?

A No. As stated in my direct testimony, FERC has been using the straight-fired variable method since its Order 636 in 1992. In decades prior to that Order, FERC did use some methods that allocated a portion of pipeline investment on throughput but that portion was not based on load factor as done in the peak and average method. More importantly, since the gas sales function was removed and pipelines became strictly for transportation service, the straight fixed variable method has been used and the allocation of pipeline investment has been allocated on a demand basis. The peak and average method would be in direct conflict with FERC's allocation of transmission investment of interstate pipelines. The allocation of transmission plant should not change from a demand basis to a throughput basis at the NIPSCO city gate.

Q HOW ARE ELECTRIC TRANSMISSION LINES ALLOCATED TO CUSTOMER CLASSES BY THIS COMMISSION?

A Electric transmission lines are allocated on a demand basis for all electric utilities that I am familiar with in Indiana, including NIPSCO, I&M, IPL, Duke and SIGECO. These transmission lines deliver power from many generation sources in many geographic areas to customers in the State of Indiana. NIPSCO purchases significant amounts of power from MISO for delivery to its customers. NIPSCO's transmission system is allocated on a demand basis.

Q HAVE YOU REVIEWED ATTACHMENT BRK-1 TO MR. KRIEGER'S TESTIMONY?

A Yes. It is a NIPSCO response to an Industrial Group data request. The response is not an analysis or a demonstration of a change in operations that warrants consideration of a change in established allocation methods. First, there is no mention of NIPSCO using anything other than the design day peak to plan, operate and construct its transmission system. Second, the purchase and integration of the relatively small systems associated with Kokomo Gas and Northern Indiana Fuel and Light distribution system do not change the allocation of NIPSCO's transmission plant. Third, access to multiple trading points and supply basins for sourcing gas supplies makes NIPSCO's gas transmission system more like its electric transmission system. There is nothing in this response that demonstrates a valid reason to change the previously established allocation method of transmission mains from peak design day to any other method. More importantly, nothing in Mr. Krieger's testimony demonstrates the validity of the peak and average method, which is illogical and not reflective of cost causation.

Q WHY IS THE PEAK AND AVERAGE ILLOGICAL AND NOT REFLECTIVE OF COST CAUSATION?

A NIPSCO's system must be sized to meet its peak demand. NIPSCO states its design day peak demand is 21.18 million therms. At a 44% load factor, average demand is only 9.32 million therms. A system designed to meet the average demand of 9.32 million therms could not serve the load on days in which the demand required to serve customers is above 9.32 million therms, which would be almost all of the cold winter days. Average demand is obviously not reflective of cost or the basis for the design of the NIPSCO system.

Q DID MR. KRIEGER PRESENT AN ANALYSIS TO DEMONSTRATE THE VALIDITY OF THE PROPOSED CHANGE IN ALLOCATION FROM PAST PRACTICE?

A No meaningful analysis was included in the testimony.

Q SHOULD AN ANALYSIS OR STUDY BE PRESENTED TO JUSTIFY A CHANGE IN COST ALLOCATION METHODOLOGY?

A Yes. The Commission has previously indicated that a change in cost allocation methodology can have significant impacts on customer classes and should not be lightly undertaken and also that its preference is to utilize the previously approved allocation methodology unless system operating characteristics are demonstrated to have changed. Nothing set forth by Mr. Krieger comes close to meeting these criteria.

Q WHAT DO YOU RECOMMEND?

A I recommend that the peak and average method of allocation be rejected by the Commission.

Q DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?

A Yes, it does.

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Verification

I, Nicholas Phillips, Jr., a Consultant and Managing Principal of Brubaker & Associates, Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Nicholas Phillips, Jr.
3/28/2018