

---

---

**VERIFIED DIRECT TESTIMONY OF DERRIC J. ISENSEE**

---

---

1   **Q1.   Please state your name, business address and title.**

2   A1.   My name is Derric J. Isensee. My business address is 801 E. 86<sup>th</sup> Avenue,  
3       Merrillville, Indiana 46410. I am currently the Executive Director of Rates  
4       and Regulatory Finance for Northern Indiana Public Service Company  
5       ("NIPSCO").

6   **Q2.   Please summarize your educational and employment background.**

7   A2.   I graduated in 2004 from Grace College with a Bachelor of Science Degree  
8       in Accounting and Business Administration. I am a Certified Public  
9       Accountant and a member of American Institute of Certified Public  
10       Accountants. I began my employment with Deloitte and Touche LLP in  
11       2005 in the firm's Audit and Enterprise Risk Services practice. In this role I  
12       served as staff auditor and senior auditor. In 2009, I took a position as a  
13       Manager of Financial Reporting at NiSource Corporate Services where I  
14       was primarily responsible for the coordination of the NIPSCO electric  
15       accounting close process. In May 2012, I became Manager, Regulatory  
16       Support and Analysis in the Rates and Regulatory Finance Department. In

1        May 2015, I accepted my current role as Executive Director of Rates and  
2        Regulatory Finance.

3        **Q3. What are your responsibilities as Executive Director of Rates and**  
4        **Regulatory Finance?**

5        A3. As Executive Director of Rates and Regulatory Finance, I have overall  
6        responsibility for rate and contract administration, revenue requirements,  
7        rate design, gas and electric rates, rules, regulations and contract filings  
8        with the Indiana Utility Regulatory Commission ("Commission"), the  
9        preparation and filing of all gas and electric cost adjustment filings with the  
10       Commission, the preparation and coordination of other regulatory filings,  
11       implementation and compliance with state and federal regulatory orders,  
12       and all regulatory finance matters.

13       **Q4. Have you previously testified before this or any other regulatory**  
14       **commission?**

15       A4. Yes. I testified before this Commission in support of NIPSCO's Mercury  
16       and Air Toxics Standards ("MATS") compliance filing in Cause No. 44311  
17       and Federally Mandated Cost Adjustment ("FMCA") filing in Cause No.  
18       44340. I routinely file testimony supporting NIPSCO's (1) Electric Demand

1 Side Management Adjustment ("DSMA") filings, (2) Gas Demand Side  
2 Management ("GDSM") filings, (3) Environmental Cost Recovery  
3 Mechanism ("ECRM") filings, (4) Federally Mandated Cost Adjustment  
4 ("FMCA") filings, and (5) electric and gas Transmission, Distribution and  
5 Storage System Improvement Charge ("TDSIC") filings. I have also filed  
6 testimony supporting NIPSCO's Resource Adequacy ("RA") and Regional  
7 Transmission Organization ("RTO") adjustment filings. I also filed  
8 testimony in NIPSCO's electric rate case in Cause No. 44688.

9 **Q5. What is the purpose of your direct testimony in this proceeding?**

10 A5. The purpose of my testimony is to explain NIPSCO's accounting and  
11 proposed ratemaking treatment to record and recover federally mandated  
12 costs associated with NIPSCO's proposed Environmental Compliance  
13 Project to comply with the (1) Coal Combustion Residuals rule that became  
14 effective October 19, 2015 (the "CCR Rule") and (2) Effluent Limitation  
15 Guidelines rule that became effective on January 4, 2016 (the "ELG Rule"),  
16 collectively referred to herein as the "Environmental Rules," through  
17 NIPSCO's Rider 787 – Adjustment of Charges for Federally Mandated Costs

1 and Appendix I – Federally Mandated Cost Adjustment Factor (the “FMCA  
2 Mechanism”).

3 **Q6. Please summarize NIPSCO’s requested ratemaking treatment for the**  
4 **Environmental Compliance Project.**

5 A6. NIPSCO proposes to seek ratemaking treatment for the Environmental  
6 Compliance Project as identified in Attachment 4-A in the Verified Direct  
7 Testimony of Kurt W. Sangster (Petitioner’s Exhibit No. 4), consistent with  
8 and through NIPSCO’s currently-approved FMCA Mechanism.  
9 Specifically, NIPSCO seeks timely recovery of all “federally mandated  
10 costs” associated with the Environmental Compliance Project including  
11 capital costs, allowance for funds used during construction (“AFUDC”),  
12 post in service carrying costs, carrying charges (“PISCC”), operation and  
13 maintenance (“O&M”), depreciation expense, property tax expense, and  
14 other taxes.

15 In order to recover all capital costs associated with these projects, NIPSCO  
16 seeks authority to (a) implement construction work in progress (“CWIP”)  
17 ratemaking treatment associated with the Environmental Compliance  
18 Project through the FMCA Mechanism; (b) record AFUDC on the

1 construction costs associated with the Environmental Compliance Project  
2 until such costs receive either CWIP ratemaking treatment through the  
3 FMCA, are placed in service or are otherwise reflected in NIPSCO's base  
4 electric rates; and (c) defer as a regulatory asset and recover through the  
5 FMCA Mechanism, PISCC associated with capital expenditures that are in  
6 service yet not receiving ratemaking treatment.

7 In addition to the recovery of these capital costs, NIPSCO requests the  
8 timely recovery, through the FMCA Mechanism, of reasonably incurred  
9 O&M, depreciation expenses, property tax expenses, and other incurred tax  
10 expenses associated with each approved project included in the  
11 Environmental Compliance Project. This ratemaking treatment is  
12 consistent with the ratemaking treatment authorized by the Commission in  
13 its January 29, 2014 Order in Cause No. 44340 ("44340 Order") in which it  
14 approved NIPSCO's request under Ind. Code § 8-1-8.4 for, among other  
15 things, (1) a Certificate of Public Convenience and Necessity for NIPSCO's  
16 compliance with Version 4 of the NERC CIP Reliability Standards ("CIP  
17 Version 4") (the "CIP Version 4 Compliance Project"), (2) the FMCA  
18 Mechanism to effectuate the timely recovery of 80% of all federally

1 mandated costs associated with the CIP Version 4 Compliance Project, and  
2 (3) deferral of the remaining 20% of federal mandated costs, including  
3 carrying charges, for recovery in NIPSCO's next rate case.

4 **Q7. Please describe NIPSCO's proposed ratemaking treatment for the**  
5 **Environmental Compliance Project through the FMCA Mechanism**  
6 **approved by the Commission in its 44340 Order.**

7 A7. Ind. Code § 8-1-8.4-7 provides that an energy utility may, in a timely  
8 manner, recover 80% of all federally mandated costs through a period rate  
9 adjustment mechanism. Ind. Code §§ 8-1-8.4-4 and 8-1-8.4-7 provide that  
10 such costs include capital, AFUDC, O&M, depreciation, tax, and financing  
11 costs. Accordingly, NIPSCO proposed, and the Commission approved, the  
12 following ratemaking treatment:

13 **Construction Work in Progress ("CWIP") Ratemaking Treatment**

14 NIPSCO's FMCA Mechanism applies CWIP ratemaking treatment to the  
15 recovery of financing costs incurred during the construction of capital  
16 projects. Under CWIP ratemaking treatment, a utility will recover, through  
17 an adjustment mechanism, financing costs incurred during the construction  
18 period attributable to qualifying capital investments. Given that the

1        financing costs under CWIP ratemaking are recovered as the capital costs  
2        are incurred (while the project is under construction), the utility is able to  
3        recover its costs in a timely manner and avoid the negative effects of  
4        regulatory lag, including negative cash flows and earnings erosion. In  
5        connection with CWIP ratemaking, NIPSCO will cease accruing AFUDC  
6        the earlier of the date in which such expenditures receive CWIP ratemaking  
7        treatment through the FMCA Mechanism or the date the project is placed  
8        in service.

9        Any AFUDC that is recorded will be recorded in accordance with Generally  
10       Accepted Accounting Principles.

11       **Post In-Service Carrying Costs ("PISCC")**

12       In accordance with Ind. Code § 8-1-8.4-7, NIPSCO also proposes to recover,  
13       consistent with the approved FMCA Mechanism, 80% of all PISCC incurred  
14       in connection with approved compliance projects. These costs are  
15       determined based on NIPSCO's current overall weighted average cost of  
16       capital ("WACC") and include all financing costs incurred from the in-  
17       service date until such projects receive ratemaking treatment.

1   **Q8. Please describe how the capital costs associated with the Federally**  
2       **Mandated Environmental Compliance Project will be incorporated into**  
3       **the FMCA Mechanism.**

4   A8. The revenue requirement for capital costs included in the FMCA  
5       Mechanism will be calculated by multiplying the net book value of the  
6       associated eligible projects by NIPSCO's current overall WACC which  
7       incorporates the return on common equity and capital structure most  
8       recently approved by the Commission in its July 18, 2016 Order in Cause  
9       No. 44688 ("Rate Case Order"). These capital costs will be grossed-up for  
10      all applicable taxes.

11   **Q9. Please describe how all other federally mandated costs, including O&M,**  
12       **depreciation expenses, property tax expenses, and other incurred tax**  
13       **expenses, associated with the Environmental Compliance Project will be**  
14       **incorporated into the FMCA Mechanism.**

15   A9. NIPSCO's accounting practice related to these costs is to defer on the  
16       balance sheet, as a regulatory asset, all costs incurred until such amounts  
17       are included and recovered in rates through the FMCA Mechanism. As  
18       amounts are recovered through rates, NIPSCO relieves the regulatory asset



1       and records expense in the income statement in order to appropriately  
2       match the revenues being recorded with the expenses.

3       In connection with Ind. Code § 8-1-8.8-11, which provides for the timely  
4       recovery of costs and expenses incurred during construction and operation  
5       of projects, NIPSCO is proposing to include all federally mandated costs  
6       related to Environmental Compliance Project in the FMCA filings in order  
7       to recover the expenses associated with these projects. These expenses  
8       would be treated consistently with expenses approved as part of the CIP  
9       Version 4 Compliance Project approved in Cause No. 44340.

10    **Q10. Please explain how the FMCA Mechanism revenue requirement is**  
11       **calculated in general.**

12    A10. In each semi-annual filing, NIPSCO calculates a revenue requirement,  
13       which consists of two components: (1) a return of capital costs including  
14       AFUDC and PISCC and (2) recovery of all federally mandated expenses  
15       associated with the projects. Then NIPSCO multiplies the total revenue  
16       requirement by 80% to establish the FMCA Mechanism revenue  
17       requirement.

1   **Q11. How does NIPSCO propose to treat the remaining 20% of federally**  
2       **mandated costs that are not included for recovery through the FMCA**  
3       **Mechanism?**

4   A11. Ind. Code § 8-1-8.4-7 provides that twenty percent (20%) of the approved  
5       federally mandated costs, including depreciation, AFUDC, and PISCC,  
6       based on the overall cost of capital most recently approved by the  
7       Commission, shall be deferred and recovered by the energy utility as part  
8       of the next general rate case filed by the energy utility with the Commission.

9       Therefore, NIPSCO proposes to defer as a regulatory asset 20% of all  
10      federally mandated costs incurred in connection with these projects.  
11      NIPSCO also proposes to record carrying charges on such amounts based  
12      on NIPSCO's current overall cost of capital which incorporates the return  
13      on common equity most recently approved by the Commission in its Rate  
14      Case Order until such amounts are recovered through rates.

15   **Q12. Please describe the allocation factors NIPSCO proposes to use to allocate**  
16      **the federally mandated costs.**

17   A12. Consistent with the Rate Case Order, NIPSCO proposes to allocate all  
18      demand related federally mandated costs associated with these projects

1       based on the demand allocators for the FMCA Mechanism set forth in Joint  
2       Exhibit B to the Stipulation and Settlement Agreement. All energy-related  
3       federally mandated costs will be allocated based upon the energy  
4       attributable to each of the Company's rate schedules based upon amounts  
5       included in NIPSCO's most recent general electric rate case. Additionally,  
6       NIPSCO will adjust its allocation percentages to reflect the significant  
7       migration of customers amongst the various rates. This adjustment is  
8       appropriate in order to prevent any unintended consequences of the  
9       migration of customers between rates and to properly allocate their share  
10      of the revenue requirement.

11   **Q13. Please describe the depreciation rates NIPSCO proposes for the federally**  
12   **mandated projects included in the Environmental Compliance Project.**

13   A13. In Cause No. 44688, NIPSCO's most recent general electric rate case, the  
14   Commission approved new depreciation rates. Here, NIPSCO is proposing  
15   to record, defer, and recover depreciation related to the Environmental  
16   Compliance Project according to those depreciation rates approved by the  
17   Commission in its Rate Case Order.

1   **Q14. How does NIPSCO propose to treat the operating income associated with**  
2       **the capital costs associated with the Environmental Compliance Project**  
3       **for purposes of the earnings test in NIPSCO's fuel adjustment clause**  
4       **("FAC") proceedings?**

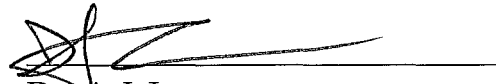
5   A14. NIPSCO proposes to include the operating income associated with the  
6       Environmental Compliance Project in the total electric Comparison of  
7       Operating Income for purposes of the Ind. Code § 8-1-2-42(d)(3) test. This  
8       is consistent with the way earnings associated with NIPSCO's CIP Version  
9       4 Compliance Project were approved to be treated by the Commission in  
10      Cause No. 44340.

11   **Q15. Does this conclude your prepared direct testimony?**

12   A15. Yes.

## VERIFICATION

I, Derric J. Isensee, Executive Director of Rates and Regulatory Finance of Northern Indiana Public Service Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.



Derric J. Isensee

Dated: November 23, 2016